

Metro Pricing Policies Investigation

Draft Report

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Government Prices Oversight Commission
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FOREWORD

This investigation, the third of the three-yearly reviews of the pricing policies of Metro, has found that Metro has substantially held its own in stemming the reduction in patronage that was evident in the first two reviews. Further, Metro continues to operate at the lowest cost of all the Australian publicly-owned bus operators, but with further gains needed to match the efficiency of the best practice private operators.

In addition to providing draft recommendations of the total funds that Metro would need to provide services under commercial conditions, the Commission has also suggested some increases in fares to bring Metro's fares closer to those charged by private operators in Tasmania and more in line with fares in other capital cities.

A high level of Government funding is not unusual for public transport, but it is important that, with changing housing and travel needs, the relevance of Metro's services to the travelling public be examined.

In previous investigations, the Commission commented that while it is required to examine the efficiency of Metro operations, there was little attention being paid to the matter of effectiveness. The Government provides almost \$20 million per annum to Metro, and less than 25 per cent of the revenue needed to cover Metro's costs comes from fares. Yet despite this level of funding, there is no clear articulation of the purpose of funding Metro's services. For the first time, the Commission has been asked to address this matter. In particular, the Commission has been asked to consider the effectiveness of the funding agreement.

The Commission has noted that while Metro is clearly responsible for delivery of services, the responsibility for the design of those services to meet the travel needs of the client groups is not so clear. Metro has been advised, in very broad terms, of Government expectations in regard to services to particular groups, but the funding agreement with the Government provides little flexibility and virtually no commercial incentive for Metro to pursue any initiatives to promote the Government's objectives. The Commission has proposed changes in the structure of the agreement that would not only have the Government consider the value it places on certain services, but would also provide Metro with commercial incentives to deliver the required outcomes.

These proposals are being aired through the Draft Report to elicit feedback from the community, Metro, and the Government before the Commission submits its Final Report and Recommendations. Following consideration of those recommendations, the Government will determine maximum revenues and the fares that may be charged by Metro for the following three years.

OVERVIEW

The Commission has been requested by the Treasurer to carry out its third three-yearly investigation of Metro's pricing policies and to recommend maximum charges for Metro services for the next three years. It has also been requested to examine the efficiency with which Metro delivers its public transport services and the effectiveness of the current Community Service Activity Agreement (CSA Agreement) between Metro and Government.

This Draft Report includes the Commission's draft recommendations.

Over the past three years, Metro has been able to slow the rate of decline in patronage of adult and student travellers and to maintain the trend in increasing patronage by concession travellers. Full fare adult travellers now represent about 22 percent of patronage, concession travellers 37 per cent and students 41 per cent.

Service Effectiveness

Metro has interpreted the Government's statement of Shareholder Expectations to be:

1. providing services that are well suited to meeting the travel needs of the main client groups:
 - students travelling to and from school;
 - commuters travelling to and from main employment centres; and
 - general mobility for those without access to private travel means;
2. focussing on customers and quality in service delivery; and
3. providing services as part of an integrated whole—linking with other bus operators and taxis where appropriate.

Metro has advocated the use of 'first boarding per bus kilometre' as a measure of effectiveness. On this measure, Metro's effectiveness has increased from a low of 0.75 in 1998-99 to 0.77 in 2001-02. This improvement reflects an increase in patronage rather than a reduction in bus kilometres.

The Commission considers that periodic reports of effectiveness should be reported on the basis of 'first boardings per service kilometre' for each of the client sectors and for each major centre and time period. This would improve reporting of Metro's ability to meet the needs of its client groups.

Service quality is measured from complaints and from performance against Metro's Service Charter. There are insufficient data to monitor trends, but the 2002 data indicate a monthly average of about 75 complaints per million first boardings. Metro's service provision, taking account of factors including on-time performance, driver performance and passenger safety, was rated by its customers to be above 80 per cent. This compares favourably with the results from similar Victorian surveys.

In general, the Commission is satisfied that Metro has achieved a high level of service standards in fulfilling the objective of ‘ensuring a suitable focus on customers and quality in service delivery’.

Initiatives taken by Metro to improve integration with other operators include an after-hours taxi rank in Glenorchy bus mall and participation in the new Launceston Transit Centre.

Financial Performance

In 2001-02, Metro received \$7.07 million from fares, \$19.35 million from the Government CSA payments and \$2.08 million from other revenue, including charters and advertising. The CSA Agreement provides an agreed level of funding, indexed for changes in Metro’s costs, but with no provision for Metro to return a profit, other than by reduction in costs, increased patronage or increased revenue generated from other (mainly charter and advertising) activities.

Metro notes that its operating expenditure per bus kilometre has reduced from \$3.01 in 1998-99 to \$2.73 in 2001-02. A recent survey of all Australian public-owned bus operators and 57 private-owned bus operators has found that Metro is the lowest cost public bus operator in Australia and its costs are comparable with the average of private sector operators. The Commission has assessed, taking account of the practices of the average best practice private operator, that ‘efficient’ costs for Metro would be some \$1.56 million less than its current total costs of \$29.0 million. However, an additional \$1.7 million per annum would be required for Metro to deliver a commercial return on the assets engaged in the business.

The Commission proposes to recommend maximum revenues, being the combination of fares and Government contribution, of \$29.15 million per annum expressed in 2001-02 terms and exclusive of GST. This represents an increase of some 2 per cent on Metro’s budget 2002-03 costs and revenues, but also includes an allowance for a commercial return. By including provision for such a return, Metro and its Board would have a clear signal that Government expects the company to operate with a fully commercial focus.

Fares

Since Government contributions are such a significant part of Metro’s revenues, the level of fares is effectively determined by Government’s decision on the level of payment it is prepared to extend to Metro for the services. The Commission has been asked to consider Metro’s pricing policies, taking account of public and private sector benchmarks, and submits the following draft proposals for Metro fares:

Adult Fares

Metro fares are approximately 37 per cent less than fares for comparable distances charged by private operators in Tasmania, and are some 75 per cent of the average of fares on public bus transport in other Australian capital cities. Subsidies for public transport are generally provided by Government to avoid traffic congestion and other environmental factors, in addition to providing a community service. The level of congestion in Tasmanian cities would not warrant the same level of subsidy as that in other Australian capitals. Further, such subsidised travel is only available to those Tasmanians who have access to Metro services and whose travel needs are satisfied by

Metro services. The Commission considers that it would be reasonable to reduce the level of Government subsidy by bringing Metro adult fares closer into line with private bus service fares in Tasmania and with the fares of other capital cities, by increases of approximately 30 per cent. This would represent an increase of 50 cents on the typical 3-4 section ticket to \$2.30. If all travellers paid this higher full adult fare, fare-box recovery would still be less than 40 per cent of Metro's costs for peak travel periods.

Concession Fares

The Commission considers that there should be no increase in single trip concession fares, and that the current 'flat rate' fare for concession travellers should be retained. However, the Commission notes that the Metro multi-trip concession fare is substantially less than the equivalent fare in other capital cities and suggests that a small increase in the multi-trip fare of \$2.20 to \$2.50 would be warranted. The Commission notes that this fare was increased by 10 cents from \$2.10 in 2002.

Student Fares

The Commission does not consider that there should be any change in student fares until the Government addresses the current anomalies in student transport. Fares for comparable travel range from free to the Metro \$1.20 per single trip and are to some extent a legacy of previous policies in regard to access to education.

The CSA Agreement

The Commission has been asked to consider the effectiveness of the current CSA Agreement. It notes that there are tensions between the statement of stakeholder expectations and the Agreement. Metro is expected to deliver certain outcomes for its client groups, with very little flexibility in the services it may offer and very little incentive to match services to needs. The focus appears to be budget-driven rather than outcomes-oriented and there is no clear indication of Government's public transport objectives and priorities.

The Commission considers that an Agreement that incorporates a fares top-up element would not only provide Metro with stronger commercial incentives to match services to needs, but would also bring much greater transparency and rigour to Government financing decisions. For example, Government could, through the Agreement, define the amount it is prepared to fund evening services, which the Commission estimates currently costs almost \$5.00 per traveller. This could lead to better decisions as to whether services could be improved for some sectors or whether the desired transport service could be better provided by operators other than Metro.

1 INTRODUCTION

1.1 Terms of Reference

The Government Prices Oversight Commission (the Commission) has been required by the Treasurer to conduct an investigation into the pricing policies of Metro Tasmania Pty Ltd (Metro). The Commission is required to produce a Final Report by 1 June 2003 in which it will make recommendations on the maximum prices to be charged by Metro for certain passenger bus services for the three years commencing 1 November 2003.

The Terms of Reference for the Investigation are reproduced in Appendix A. Essentially, the Commission is required to:

...investigate the pricing policies associated with the current provision of scheduled route services by Metro in the metropolitan areas of the Greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services.

In investigating the pricing policies, the Commission is to consider:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements (Community Service Activity Agreement) between Metro and the Government, including the incentive mechanisms for purchasing services, having regard to the cost of delivery and service level;

and to review the adequacies of the Metro Index¹ in reflecting Metro's input costs.

1.2 The Government Prices Oversight Commission

The Commission is an independent statutory body. It was established in 1996 following the commencement of the *Government Prices Oversight Act 1995*. Its role is to investigate the pricing policies of State-owned companies, Government Business Enterprises (GBEs), Local Government business and agencies that are monopoly providers of goods and services in Tasmania.

An outline of the legislative and policy framework relating to the Commission is provided in Appendix B.

The Commission established for this Investigation comprises Mr Andrew Reeves (Commissioner) and Mr Glenn Appleyard (Assistant Commissioner).

¹ The Metro Index serves as the basis for allowing the adjustments to Metro's adult fares under the terms of the Pricing Order and quarterly adjustments of Metro's Community Service Activity payments by the Government.

1.3 Matters to be taken into Account

Apart from the specific issues raised in the Terms of Reference, Section 31 of the *Government Prices Oversight Act 1995* (GPO Act) specifies certain matters that the Commission must take into account in any investigation. This section of the GPO Act is reproduced in the Terms of Reference. These matters include:

- the cost of supplying or providing the monopoly service;
- any interstate benchmarks for prices, costs, revenues and returns on assets;
- the need to protect consumers from the adverse effects of the exercise of monopoly power;
- the need for the monopoly provider to be financially viable;
- the need for a reasonable return to the State, including the payments of dividends;
- any community service obligations; and
- the quality of the supply of the monopoly service.

1.4 Background to the Investigation

The Commission has been set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements, which were signed by the Council of Australian Governments (COAG) in April 1995. The purpose of the NCP is to promote competition in the interests of efficiency and economic growth, while dealing with social objectives and concerns about market failure.

As a guiding principle, the NCP anticipates that competition should not be restricted by legislative barriers unless it can be demonstrated that:

- the benefits to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

The NCP Agreements specifically include a requirement that state and territory governments consider establishing an independent source of prices oversight advice for their monopoly government businesses. Commonwealth prices oversight is to apply in the absence of an appropriate state body.

The COAG Competition Principles require an independent source of prices oversight advice with the following characteristics:

- it should be independent from the Government business whose prices are being assessed;
- its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined CSOs imposed on a business enterprise by the government or legislature of the jurisdiction that owns the enterprise;

- it should apply to all significant government businesses that are monopoly, or near monopoly, suppliers of goods or services (or both);
- it should permit submissions by interested persons; and
- its pricing recommendations and the reasons for them should be published.

1.5 Metro Submissions to the Investigation

To assist with the Investigation, Metro has provided the Commission with a preliminary submission (Metro Submission) and a supplementary submission (Supplementary Submission). The submissions address the issues raised in the Terms of Reference for the Investigation. The structure of Metro's submissions is as follows²:

Sections 2 to 4 provide general background information about Metro, its regulatory environment, its operations and its financial performance.

Section 5 focuses on Metro fares policies.

Section 6 outlines briefly the matters relating to the efficiency of service delivery.³

Section 7 identifies a range of additional costs faced by Metro beyond normal service provision that need to be taken into account when considering the total cost of service provision.

Section 8 focuses on the effectiveness of Metro operations, taking into account shareholder expectations.

Section 9 looks at the effectiveness of purchasing arrangements in terms of encouraging the provider (Metro) to deliver to the purchaser (Government) what it really wants. Section 9 also looks at the arrangements for adjusting the Community Service Activity (CSA) agreement payment in light of service changes.

Section 10 focuses on the Metro Index and its adequacy in reflecting Metro's costs.

Section 11 summarises the main conclusions that can be drawn from the material presented in this preliminary submission.

1.6 Previous Metro Investigations

This Investigation will be the third Metro pricing policy investigation conducted by the Commission. The first Metro investigation was conducted in 1997 and the second in 2000. Reports and related submissions for these two investigations may be obtained from the Commission's website: www.gpoc.tas.gov.au.

² Metro Submission: Section 1.2.

³ The Supplementary Submission discusses Metro's efficiency in more detail.

1.7 Key Developments since 2000 Investigation

1.7.1 New Fares Innovation

Arising from the last investigation into Metro's pricing policies, a major innovation was introduced by Metro in July 2000. This consisted of the removal of the afternoon peak restriction from daily tickets for adult, adult concession and child/student passengers, allowing these tickets to be used Monday to Friday (weekdays) after 9:00 am. On weekdays, these daily tickets are particularly popular with adult concession patrons. Metro submits that the removal of restrictions helps to explain the significant increase in adult patronage occurring up to about October 2001.⁴

1.7.2 The New Tax System

In July 2000 there were major changes made to the Australian Tax system, through the implementation of the Goods and Services Tax (GST) and the introduction of a new system of fuel grants - Diesel and Alternative Fuel Grants (DAFG) for commercial users of diesel in non-metropolitan areas (including the whole of Tasmania). These changes were intended to leave the bus industry at no financial disadvantage.

1.8 Responses to the Invitation for Submissions

As part of the investigation process, the Commission released a document (Invitation for Submissions) in January 2003 inviting submissions from interested parties on issues relevant to the Investigation. Metro's submission was also released to further assist interested parties. Fifteen submissions were received, covering and highlighting a range of issues and topics.⁵

1.8.1 Issues Outside the Terms of Reference

The Commission received several submissions raising concerns in relation to the operations provided by Hobart Coaches. These issues included:

- the level of service provided by Hobart Coaches in the Kingston/Blackmans Bay areas and the possibility of integrating the fares of Hobart Coaches and Metro⁶;
- discrepancy between the pricing policies of Metro and Hobart Coaches, especially with regard to the fares policies for the legally blind;⁷ and
- disparity's of fares between Metro and Hobart Coaches as well as the lack of existing facilities provided by Hobart Coaches i.e. bus stop signs, bus shelters and timetables.⁸

⁴ Metro's submission, pp82 - 83.

⁵ A summary of the major issues raised within the submissions is contained in Appendix C2.

⁶ Submission from Tom Nilsson.

⁷ Submission from Alan Warren.

⁸ Submission from Sally Catherall.

The issues in the submissions relating to Hobart Coaches fall outside the Terms of Reference for the current Investigation. The Commission has passed these submissions to the Department of Infrastructure Energy and Resources (DIER) for consideration.

The Commission also received a submission suggesting that Metro could better accommodate bicycle users on its services⁹. Again this issue falls outside the Terms of Reference for the current Investigation. The Commission has passed this submission on to Metro for consideration.

1.9 Invitation for Submissions

The Commission has produced this Draft Report after taking into account the responses to the Invitation for Submissions. The Commission encourages public participation in the Metro Investigation and invites submissions on any of the matters raised in this Draft Report. Submissions should be made to the Commission by 30 May 2003 preferably by email to:

office@gpoc.tas.gov.au

or by mail to:

**Government Prices Oversight Commission
GPO Box 770, Hobart Tas 7001**

⁹ Submission from Ann Burnett.

2 METRO OPERATIONS

2.1 Background¹⁰

Prior to February 1998, urban public transport services in Hobart, Launceston and Burnie were provided by Metropolitan Transport Trust (MTT), a statutory authority constituted by the *Metropolitan Transport Act 1954*.

The Government corporatised MTT on 2 February 1998 as part of its transport reform package by:

- repealing the *Metropolitan Transport Act 1954*;
- passing the *Metro Tasmania Act 1997*, vesting ownership and management responsibility for services previously provided by the MTT in a new State-owned corporation, Metro Tasmania Pty Ltd; and
- transferring public policy and regulatory powers formerly vested in MTT to the administrative control of the then Department of Transport (now the Department of Infrastructure, Energy and Resources).

The principal objective of Metro as stated in Section 5 of the *Metro Tasmania Act 1997* (Metro Act) is:

...to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice.

On 31 October 1997 the Government and Metro entered into a Community Service Activity (CSA) agreement in which the services that the Government required Metro to provide were specified, together with the general standards to be adopted, the fares to be charged, and the definition of passengers eligible for concessional fares.

Around the same time, the Government also commenced a process of moving to a contract based purchaser-provider model for all other “core” regular passenger transport services including school contract buses, student-only fare paying services and general route services provided by the private sector.

Introducing the *Passenger Transport Act 1997* and abolishing the public vehicle licensing provisions of the *Traffic Act 1925* achieved this change.

Metro was declared a “monopoly service provider” in 1997 for the purposes of the *Government Prices Oversight Act 1995*. As a monopoly service provider, Metro became subject to regular review every 3 years by the Commission with respect to its pricing policies.

¹⁰ Metro Submission, Section 2.

2.1.1 Current Statutory Position¹¹

Metro is a company limited by shares and was incorporated in 1998 under *Corporations Law* to perform functions relating to the operation of a public bus transport system.¹²

The authority for actions taken by Metro is contained within its constitution. Metro is also subject to the Metro Act which requires Metro to:

- provide road passenger transport services in Tasmania in a manner consistent with sound commercial practice; and
- perform on behalf of the State its Community Service Obligations in an efficient and effective manner as specified in the CSA agreement.

Metro now competes on an equal footing with privately owned passenger transport operators and pays all appropriate taxes, rates, and duties. However, Metro is not funded to provide a return on equity as in the case of a private company.¹³

2.1.2 Current Fare Controls

There are currently two mechanisms controlling the fares charged by Metro.

Firstly, Metro's board of directors is able to determine adult fares but must ensure that those fares adhere to the rules defined by the *Government Prices Oversight (Metro Bus Fares) Order 2000*. The Order specifies three things:

1. an initial set of adult fares;
2. a set of 'ceiling fares'; and
3. a basket of adult tickets, being a weighted combination of Metro's existing adult tickets, with a resultant weighted average fare.

Secondly, the only way that fares can change is through a 'deed of variation' to the CSA agreement. This 'deed of variation' requires the Minister for Infrastructure's approval and signature.

2.2 Metro Services

2.2.1 Level of Services

Metro provides urban passenger bus services in the cities of Hobart, Launceston and Burnie (including Wynyard and Ulverstone). Services include school services, passenger route services and a range of charter services.

¹¹ Metro Submission, Chapter 2.

¹² Metro Submission, p 7.

¹³ Metro Submission, p 7.

Metro operates weekday services in Hobart, Launceston and Burnie, evening services in Hobart and a minor evening service in Launceston. Weekend and public holiday services are only available in Hobart and Launceston.

In 2001-02, Metro provided about 1350 scheduled route services per weekday in Hobart and 500 on Saturdays, 468 route services on weekdays in Launceston and 180 in Burnie (including Wynyard and Ulverstone).¹⁴

In aggregate, total bus services in these three centres covered 10.3 million bus kilometres and provided about 9.6 million passenger trips.¹⁵ Table 2.1 below shows total passenger trips from 1994-95 to 2001-02.

Table 2.1: Total Passenger Trips (including transfers, charter and contract services)

	Hobart	Launceston	Burnie	Total
1994-95	8 750 000	2 270 000	750 000	11 770 000
1995-96	8 583 000	2 261 000	714 000	11 558 000
1996-97	7 908 000	2 086 000	645 000	10 639 000
1997-98	7 390 000	1 993 000	613 000	9 996 000
1998-99	7 165 000	1 855 000	548 000	9 568 000
1999-00	7 056 000	1 807 000	516 000	9 379 000
2000-01	7 167 000	1 950 000	509 000	9 626 000
2001-02	7 191 000	1 903 000	532 000	9 626 000

Source: Metro Annual Report 1998-99 & Metro Annual Report 2001-02.

2.2.2 Service Quality

The level of Metro's service quality is prescribed in its Customer Service Charter.¹⁶ Metro's performance against its Customer Service Charter is assessed by engaging an independent market research company to undertake regular surveys (currently four times a year). The surveys are known as the 'Moment of Truth Surveys'. In October 2002, Birkett & Associates published a report analysing the results of several of these surveys (the content of the report is discussed in Chapter 3 of this report). Metro's Customer Service Charter underpins Metro's attainment of the goal within its corporate plan to 'improve the reliability, safety and quality of services to customers'.¹⁷

Another means used by Metro to assess its own service quality is the measurement of the number of complaints per million first boardings (again, this topic will be discussed in greater detail in Chapter 3 of this report).

¹⁴ Metro Submission, Chapter 3.

¹⁵ Metro Submission, Chapter 3.

¹⁶ Metro Customer Service Charter is replicated in Appendix F.

¹⁷ Metro's Corporate plan.

2.3 Metro Patronage

Passengers of Metro's timetabled services are grouped into three categories:

1. adult (full fare)
2. adult concession (including tertiary students)
3. child/student

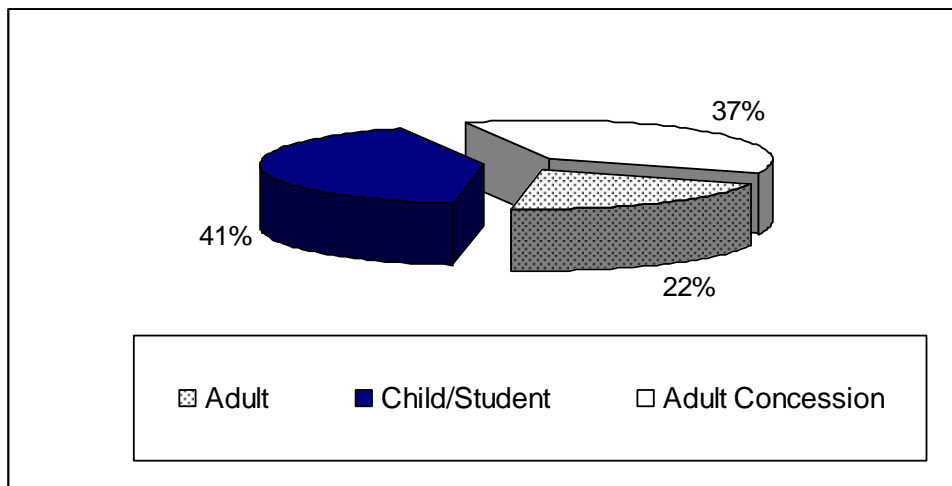
Metro's timetabled services are divided into four different time periods:

1. Peak 3.01 am to 8.59 am and 2.46 pm to 6.20 pm
2. Interpeak 9.00 am to 2.45 pm
3. Evening 6.21 pm to 3.00 am
4. Weekend Saturday, Sunday and Public Holidays.

2.3.1 Current Metro Patronage

In 2001-02, Metro carried about 9.62 million passengers (total boardings) Figure 2.1 below represents Metro's first boardings broken down by passenger type: 22 per cent were full fare adult passengers, 37 per cent adult concession passengers and 41 per cent child/student passengers.

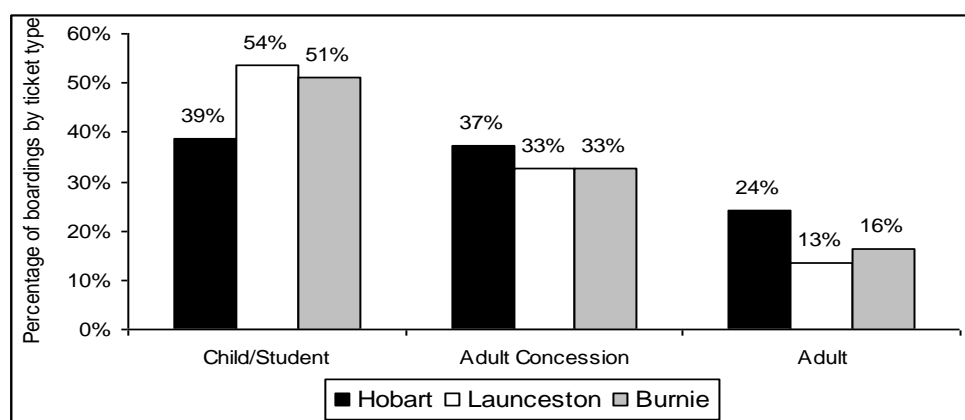
Figure 2.1: First Boardings 2001/02



Source: Metro Annual Report 2001/02, p7.

2.3.1.1 Passengers by ticket type

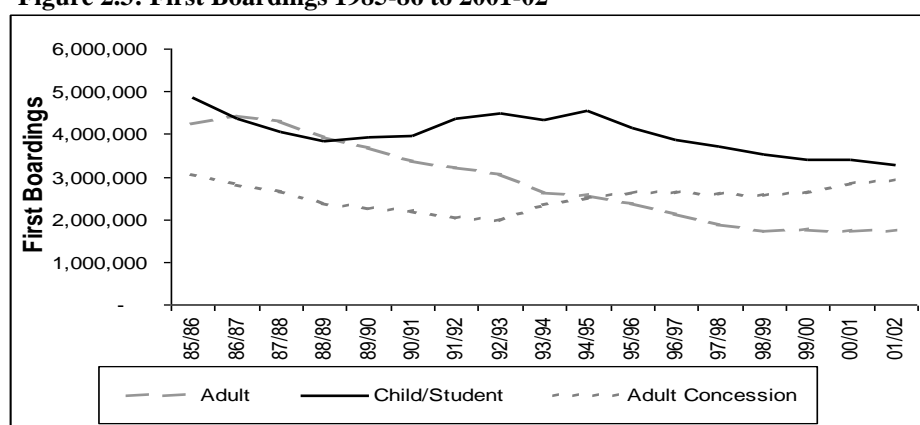
Figure 2.2 summarises the number of passengers by ticket type in the three centres in 2001-02. It indicates that full fare adult passengers made up 24 per cent of total patronage in Hobart, 13 per cent in Launceston and 16 per cent in Burnie. Child/student passengers accounted for 39 per cent of total passengers in Hobart, 54 per cent in Launceston and 51 per cent in Burnie. The proportion of adult concession passengers was highest in Hobart at 37 per cent followed by Launceston and Burnie at 33 per cent.

Figure 2.2: Passengers by Ticket Type 2001-02

Source: Metro Submission, p 96.

2.3.2 Metro Patronage Trends

Figure 2.3 indicates that total adult patronage has been in steady decline for the last 16 years, although since 1997-98 the decrease in adult patronage seems to have slowed. There has been a slower decline in child/student passengers and an increase in adult concession passengers since about 1992-93.

Figure 2.3: First Boardings 1985-86 to 2001-02¹⁸

Source: Metro submission, p22.

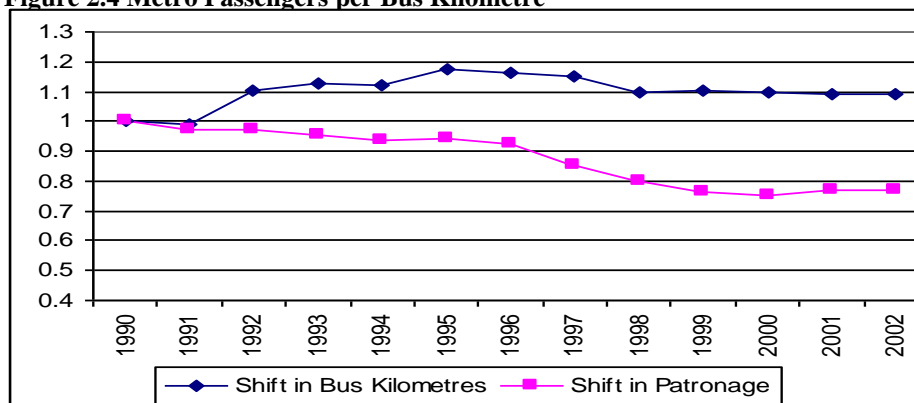
Metro's full fare passengers have fallen from approximately 35 per cent of total first boardings in 1985-86 to the current level of 22 per cent of first boardings. Over the same time period, the proportion of adult concession passengers has increased from 25 per cent to 37 per cent. The proportion of child/student passengers has slightly increased over the period, from 39 per cent to the current 41 per cent.¹⁹

2.3.2.1 Bus Kilometres

Figure 2.4 displays the shift in the number of kilometres travelled by Metro buses compared with the shift in Metro's total patronage, using 1990 as the base year.

¹⁸ Metro submission, p22.

¹⁹ Derived from data provided by Metro.

Figure 2.4 Metro Passengers per Bus Kilometre

Source: Metro²⁰

The graph demonstrates that whilst Metro's patronage has declined significantly since 1990, the number of kilometres travelled by Metro buses has increased by approximately 10 per cent (although remaining fairly constant since 1998). These trends have led to a decreasing number of passengers per kilometre travelled by Metro buses.

2.3.3 Patronage Trends since the 2000 Investigation

Metro's total patronage declined by 0.7 per cent in 1999-00, increased by 2.3 per cent in 2000-01 and declined by 0.6 per cent over the last financial year. Metro attributes the overall growth since 1999-00 to improved services and states that:

whilst some of this growth was due to expanded services, through the introduction of services into Ravenswood in May 2000, we believe that the improved service delivery has had a significant effect.²¹

There were nearly 400 000 more first boardings of adult concession passengers in 2001-02 than there were in 1998-99. The number of first boarding full fare paying adults has declined by 57 000 and first boarding child/student declined by 216 000 since 1998-99. In its submission, Metro suggests that some of the reasons for the increases in adult concession passengers include:²²

- relaxing the time restrictions on the popular daily tickets as recommended in the previous Government Prices Oversight Commission's Investigation of Metro Pricing Policies;
- the introduction of various Metro service initiatives such as Doorstoppers, Shopper Shuttles, Shopper Stoppers;
- the introduction of various customer relations initiatives such as more women drivers and stop-specific timetables; and
- an increasing elderly population.

²⁰ Chart based on information provided by Metro.

²¹ Metro Annual Report 2001-02, p5.

²² Metro Submission, pp 24.

One of the main reasons for the decreases in child/student patronage is that there has been a decreasing proportion of free student patronage. The decrease in free student patronage is due in part to the Department scrutinising more carefully the issuing of free passes to students.²³

Table 2.2: First Boarding (excluding transfers, charter and contract services)

Passenger	Number of Trips				Patronage per Category			
	98-99 '000	99-00 '000	00-01 '000	01/02 '000	98-99 %	99-00 %	00-01 %	01-02 %
Adult	1 766	1 736	1 722	1 709	22.8	22.6	21.8	21.7
Adult Concession	2 497	2 569	2 814	2 891	32.2	33.4	35.6	36.7
Child/Student	3 485	3 389	3 379	3 269	44.0	44.0	42.7	41.5
Total	7 748	7 694	7 915	7 869	100.0	100.0	100.0	100.0

Source: Metro Annual Reports 1998-99, 1999-00, 2000-01 and 2001-02.

2.3.3.1 Actual patronage – Projected Patronage

The study conducted by Booze Allen & Hamilton (BAH)²⁴ in 1999 indicated that Metro could expect the declining trend in patronage of approximately 2.5 per cent per annum to continue²⁵. This means that the level of total patronage for 2001-02 would have declined to approximately 8.9 million trips. The actual number of total boardings for 2001-02 was 9.62 million trips, which was approximately 8 per cent higher than the predicted result.

The following table and figure display Metro's first boardings against the predictions by BAH. The table also provides patronage forecasts up until 2004-05.

²³Metro Submission, p24.

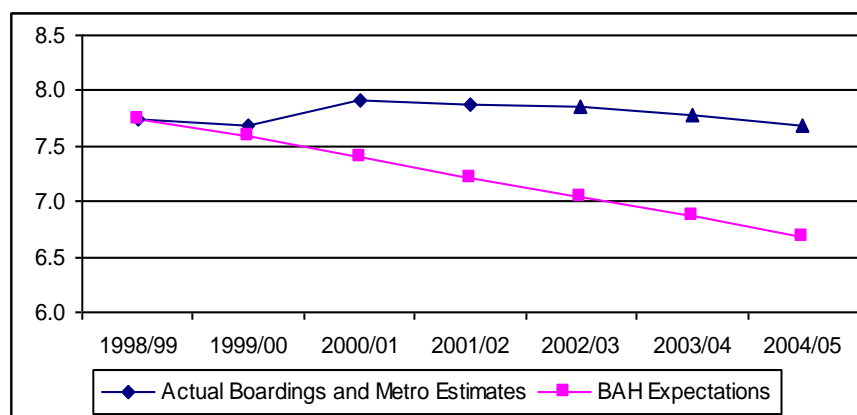
²⁴Booz Allen & Hamilton: *Appraisal of Patronage Trends and Prospects – Summary Report May 2000*.

²⁵ Metro submission, p 20.

Table 2.3 Patronage Actuals and Forecasts verses BAH Expectations

	Year	First Boardings	% Change	BAH Expectations	%Change
Actual	1998/99	7 748 834		7 748 834	
	1999/00	7 693 926	-0.7	7 594 000	-2
	2000/01	7 914 843	+2.9	7 404 000	-2.5
	2001/02	7 869 000 ²⁶	-0.5	7 219 000	-2.5
Estimates	2002/03	7 859 850	-0.1	7 038 000	-2.5
	2003/04	7 772 750	-1.1	6 862 000	-2.5
	2004/05	7 689 850	-1.1	6 691 000	-2.5

Source: Metro Corporate Plan 2002/03 to 2004/05.

Figure 2.5 Patronage Actuals and Forecasts verses BAH Expectations

Source: Metros Corporate plan 2002/03 – 2004/05.

Metro's better-than-expected patronage in 2001/02 was essentially due to increases in the number of adult concession passengers travelling on Metro services with an increase of nearly 16 per cent in first boardings.

2.3.4 Private Car versus Public Transport

Another factor that has an influence on patronage is the number of people choosing to use their private vehicle as their mode of transport (especially to and from work) instead of using the bus.

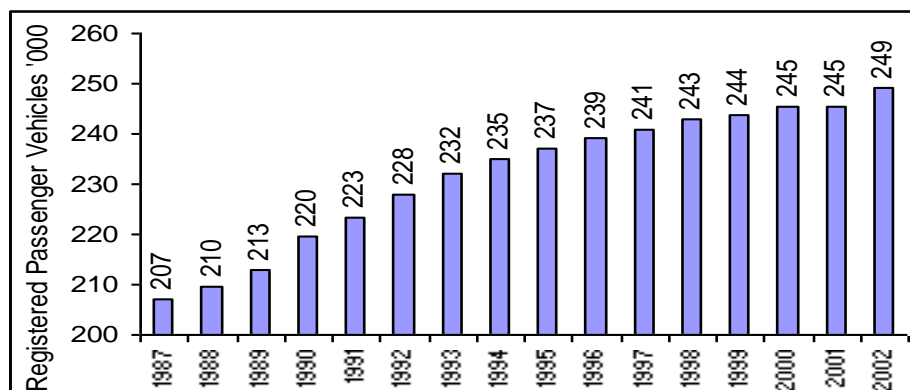
From 1987 to 2002, Tasmanian passenger vehicle registrations grew from 207 276 to 249 133, a total increase of 20 per cent for the 15 year period (see vehicle registrations since 1987 in Figure 2.6). The total population growth in Tasmania for the same period was estimated to be about 5.4 per cent²⁷. The increase in vehicle registrations could have been an influencing factor in the decline in Metro's patronage.

²⁶ Number derived from information provided by Metro.

²⁷ ABS Demographic Statistics Cat No 3101.0 & Tourism Tasmania website.

Figure 2.6 demonstrates the trend in vehicle registrations since 1987.

Figure 2.6 Tasmanian Registered Passenger Vehicles – Station Wagons and Sedans.



Source: Data obtained from the Department of Infrastructure Energy and Resources²⁸.

2.4 Metro Market Share and Market Profile

2.4.1 Market Share

According to BAH's 2000 study²⁹, Metro provided about 3.1 per cent of all commuter trips made in Hobart, 2.3 per cent in Launceston and 0.9 per cent in Burnie as at May 2000.

The market share of buses for the total commuter³⁰ market varies from city to city due to differing natures of each city, particularly in relation to the scope of the public transport options available to the public. Table 2.4 demonstrates the shift in the utilisation of public transport, as the method of transport to work, in some of the major cities since 1996.

Table 2.4 Commuters travelling by bus

City	Percentage of commuters travelling by bus		Change in market share
	1996	2001	
	%	%	%
Hobart	7.0	6.0	-14.1
Newcastle	4.2	3.5	-16.3
Wollongong	2.5	2.0	-21.4
Sydney	6.2	6.2	+1.0
Melbourne	1.8	1.5	-13.2

Source: Metro Submission, p39.

Table 2.4 demonstrates that the decline in market share in Hobart is similar to that in other major cities, with the exception of Sydney.

²⁸ The data from DIER includes only registered passenger cars and station wagons.

²⁹ There has been no update of the BAH 2000 report.

³⁰ 'Commuter' – person travelling to and from their place of work.

2.4.2 Metro Market Profile

In its submission, Metro notes that public transport is more important to concession passengers (Adult Concession, Child/Student and Free Student) than it is to full fare paying passengers.³¹ Metro states that adult (full fare) passengers have a greater income and are able to choose the private car as the preferred method of travel, whereas this flexibility is not as available to adult concession passengers who tend to have a lower income and are less likely to own a private car.

The two market segments for patrons under the age of 18 are students travelling to and from school and those using public transport for their general personal mobility. Public transport plays a key role in both these segments, with the journey to and from school being the more dominant.

2.4.3 Journey to Work

Table 2.5 below indicates that of the 55 144 people surveyed on 2001 census day, only 2.6 per cent of Tasmanian workers used buses as their sole means of travel to work compared with 84 per cent who used cars as their sole means of travel to work.

In comparison, the 1996 census found that 86 per cent of the surveyed workers in Tasmania used cars for transport on an average day compared with 3.6 per cent using buses.

Since the 1996 census, the proportion of bus users among Tasmanian workers declined by 1 per cent.

Table 2.5 Methods of Transport to Work on Census Day 1996 & 2001 - Tasmania

Method of Transport	1996 %	2001 %	Shift %
Car (Driver)	76.0	75.5	-0.5
Car (Passenger)	10.0	8.5	-1.5
Walking	6.6	10.3	3.6
Bus	3.6	2.6	-1.0
Train, Ferry or Tram	*	0.6	0.6
Bicycle	*	1.1	1.1
Taxi	*	0.4	0.4
Motor Cycle	*	0.4	0.4
Other Method	2	0.6	-1.4

Source: ABS Census 1996 & 2001.

Figure 2.7 shows the proportion of workers in Hobart, Launceston and Burnie³² using buses and cars as their sole method of transport to work on 2001 census day. It was found that 5.3

³¹ Metro's Submission, p38.

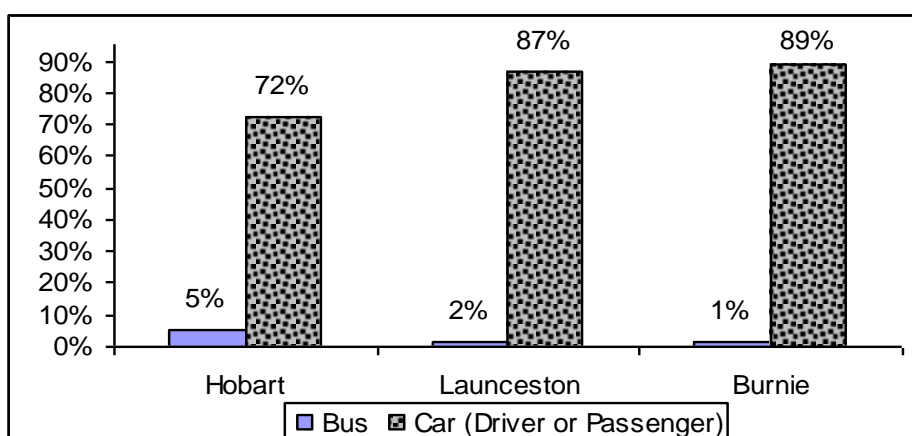
³² Hobart region includes: Brighton, Clarence, Derwent Valley, Glenorchy, Hobart and Kingborough. Launceston region includes: Launceston, Meander Valley and West Tamar. Burnie region includes: Burnie, Waratah/Wynyard and Central Coast. (Source: ABS census 2001).

per cent of workers in Hobart, 1.8 per cent in Launceston workers and 1.2 per cent in Burnie used a bus to travel to work. More than 80 per cent of workers in the three regions chose to travel to work by car.

Metro notes in its submission that:

The very low utilisation of the bus for the journey-to-work is another reflection of public transport being seen as an “inferior good” in relation to the private car. As the standard of living rises people move away from public transport to the more flexible and convenient private car.³³

Figure 2.7: Employed Persons Method of Travel to Work



Source: ABS Census 2001.

The data from the Australian Bureau of Statistics (ABS) highlights the importance of the car as the principal means of transport in Tasmania.

2.5 Metro Patronage Initiatives

To ensure its services better meet customer needs, thus enhancing patronage, Metro has implemented various service level and service quality improvements in recent years. The key service initiatives include:³⁴

- doorstopper services;
- shopper stopper services;
- shopper shuttle services;
- courtesy zone;
- Burnie area service enhancement;
- the introduction of services into Ulverstone;

³³ Metro Submission, p39.

³⁴ Metro Submission, p82.

- the specially adapted bus used for carrying customers with surfboards to Clifton beach in the summer and the extension of this to a mountain bike service;
- special customer relations training for all staff and first aid training for drivers;
- increased numbers of timetables on bus stops and the development of stop-specific timetables to improve customer information;
- the Metro website with improved customer timetable and route information;
- annual information sessions with year 6 students; and
- the hiring of more female drivers.

A major innovation in Metro's fares was introduced in July 2000 arising from the previous Metro Investigation conducted in 2000, a major innovation in Metro's fares was introduced in July 2000. This innovation removed the afternoon peak restriction from daily tickets for Adult, Adult Concession and Child/Student passengers, allowing these tickets to be used Monday to Friday (weekdays) after 9:00 am. During weekdays, these daily tickets are particularly popular with Adult Concession patrons, and Metro believes that this removal of restrictions helps to explain the significant increase in adult patronage occurring up to about October 2001.³⁵

³⁵ Metro Submission, p82.

3 EFFECTIVENESS OF METRO SERVICES

3.1 Introduction

The Commission is required by the Terms of Reference to take into consideration the effectiveness of Metro's service delivery in terms of the Government's objectives as represented by the Shareholder Expectations statement (Expectations Statement). This Chapter will assess the effectiveness of Metro's service delivery against the Expectations Statement.

The Government, as represented by its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
 - students travelling to and from school; and
 - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

Metro considers that the Expectations Statement provides the basis for what is meant by effective service delivery for the purpose of this Investigation.³⁶ From the Expectations Statement, Metro identifies the following three elements it considers as important for effective service delivery:³⁷

1. providing services that are well suited to meeting the travel needs of the main client groups:
 - students travelling to and from school;
 - commuters travelling to and from main employment centres; and
 - general mobility for those without access to private travel means;
2. focussing on customers and quality in service delivery; and

³⁶ Metro Submission, p66.

³⁷ Metro Submission, p66.

3. providing services as part of an integrated whole – linking with other bus operators and taxis where appropriate.

Similarly, DIER states in its submission that any indicators or measures of Metro's effectiveness should address the questions:³⁸

‘How well do Metro's services meet the travel needs of the main client groups?’ and
‘How good is Metro in relation to providing customer service and quality in service delivery to its main client groups?’³⁹

3.2 Effectiveness of Metro's Services

Metro uses two types of performance indicators to measure:

- how well Metro services meet the travel needs of client groups (Effectiveness Indicator); and
- the level and quality of customer service and service delivery (Service Quality Indicator).

3.2.1 Effectiveness Indicator

For measuring the passenger demand (effectiveness of Metro services), Metro uses primarily ‘First Boardings Per Bus Kilometre’, which is also accepted by DIER as a good indicator of Metro's output effectiveness.⁴⁰ Metro uses this indicator to ascertain the number of people occupying the seats provided by Metro buses. Metro states that the higher the level of occupancy the better it is doing in matching its services to the community's travel needs.⁴¹

In general, comparative performance monitoring over time may provide a valuable measuring tool to assess the performance of the operator.⁴² Comparisons with other operators are a less valid measure of the effectiveness of the services provided given different stakeholder requirements, size of urban centres, mixtures of public transport uses, etc.

3.2.1.1 *First Boardings Per Bus Kilometre*

Figure 3.1 below shows Metro's first boardings per bus kilometre by financial year from 1992-93 to 2001-02.

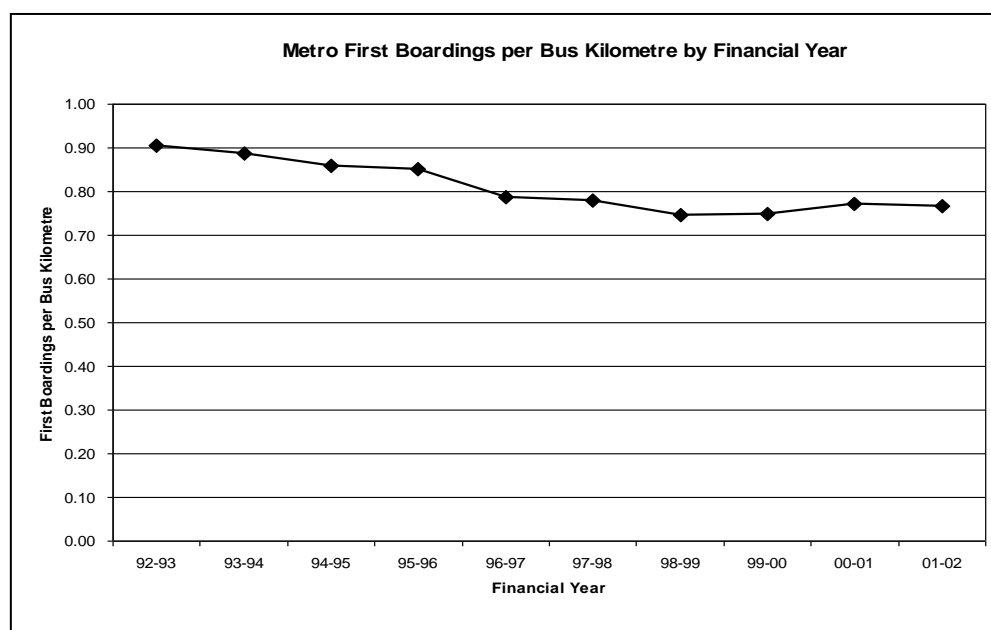
³⁸ DIER Submission, p1.

³⁹ DIER identifies Metro's main client groups to be: students travelling to and from school; commuters travelling to and from main employment centres (within the metropolitan areas); and those without access to private travel means. DIER Submission, p1.

⁴⁰ DIER Submission, p1.

⁴¹ Metro Submission, p 67.

⁴² For example, DIER states that first boardings per bus kilometre should be measured against the previous year's results as well as just measuring the long-term trend. DIER Submission, p1.

Figure 3.1 First Boardings per bus kilometre

Source: Metro Submission, p72.

Figure 3.1 demonstrates that until 1998-1999 there was a decreasing trend in first boardings per bus kilometre. This trend has abated in the past four years. On this measure, Metro's effectiveness has increased from the low of 0.75 in 1998-99 to 0.77 in 2001-02.

Examination of Figure 3.1 in comparison with the 'first boardings' data in Table 2.3 confirms that the recovery in performance from the low point in 1998/99 substantially reflects increases in boardings rather than a response to changes in the bus service.

In its submission, Metro cites a consultant study⁴³ taken in 2000 to show that in addition to a consistent long-term trend decline in public transport use for all population centres, the level of transport use varies significantly between centres for a variety of reasons:⁴⁴

In the BAH study the consultants found that Metro's operating centres had annual rates of patronage decline (measured as public transport trips per capita) of between about two and three percent (Hobart 3.1%, Launceston 2.8%, Burnie 2.1%). For the other Australian cities the annual rates of decline were between 1.2% and 3.2%. Booz, Allen and Hamilton found that Metro's underlying patronage trends were not significantly different from the trends of the other Australian cities studied.

In looking at cross-sectional trends in public transport trips per capita the consultants found that patronage per capita for Hobart and Launceston fell below the expected level for cities of their size whilst Burnie performed somewhat better... Booz, Allen and Hamilton concluded.... "it is unclear whether these results reflect the effectiveness of service delivery or (more likely) other features of the areas."

⁴³ Booz, Allen and Hamilton. *Appraisal of Patronage Trends and Prospects*, May 2000.

⁴⁴ Metro Submission, p68.

Thus, it is difficult to draw any definite conclusion regarding effectiveness from the first boardings per bus kilometre indicator that Metro is currently using.

Further, the Commission believes that using ‘per bus kilometre’ rather than ‘per service kilometre’ could distort the level of occupancy because of the effect of ‘dead running’⁴⁵.

In the context of the Expectations Statement, the Commission is of the view that indicators should be relevant to the effectiveness in meeting the travelling needs of the main client groups. For example, over a period of time, changes in work patterns, schooling preferences and variations in population densities will mean that it is necessary to review transport routes and timetables to ensure that they continue to respond to customers’ preferences.

Reporting should reflect Metro’s goals in regard to each of its main client groups and their needs, and could be improved by dealing separately with scheduled route services and school services. Although disaggregated data including reports by client group and by service period are more complex, it would provide a better indication of Metro’s effectiveness in meeting Government and community’s expectations.

The Commission feels that a better understanding of the levels of, and trends in, school enrolments will assist Metro in planning scheduled school services in future. The Commission has been working in conjunction with the Department of Education and Metro to collate a set of data detailing past trends and future projections of school enrolments, which will enable Metro to estimate the future need for scheduled school services. The school enrolments data in question include school enrolment numbers of the relevant schools and the areas where the students reside.

3.2.2 Service Quality Indicators

Metro currently uses the two measures to assess its service quality performance:⁴⁶

- Complaints Per Million First Boardings; and
- Performance Against Customer Service Charter.

3.2.2.1 Complaints Per Million First Boardings

Measuring the number of passenger complaints in relation to the number of passengers provides an indicator for the level and quality of Metro services. The key performance indicator used for this measure is the number of complaints per million of first boardings.

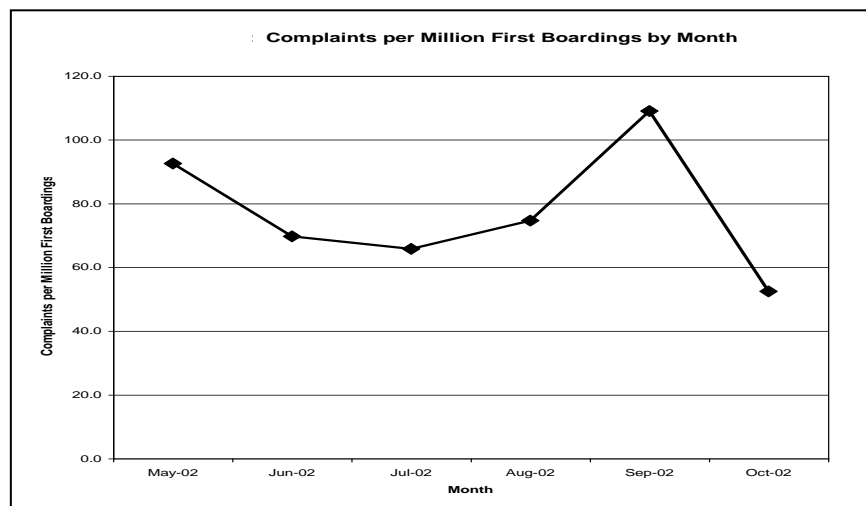
Previously Metro only collected data on complaints that were substantiated through investigation. Metro now records all complaints received whether or not they have been substantiated. However, Metro notes that the data have only been collected in this format for a limited period of time.

⁴⁵ When the bus is not in service.

⁴⁶ Both Complaints Per Million First Boardings and Performance Against Customer Service Charter are also accepted by DIER as appropriate indicators for measuring Metro’s service quality. DIER Submission, p3.

Figure 3.2 shows the number of complaints Metro received per million boardings from May 2002 to October 2002.⁴⁷

Figure 3.2 Complaints per Million First Boardings



Source: Metro Submission, p77.

Given the limited data available, Figure 3.2 above does not provide a sufficient timeframe for meaningful analysis of any trend. However, the data indicate a monthly average of about 75 complaints per million first boardings.

In time, this measure may be useful tool as a broad measure of the general level of consumer satisfaction with the services provided by Metro. The average result over the previous six months may be used as a benchmark against which monthly results may be assessed.

3.2.2.2 Performance against Customer Service Charter

Metro states that another key performance indicator for measuring the level and quality of Metro's services is to assess its performance against Metro's Customer Service Charter (Customer Charter). Metro's Customer Charter was first developed in 1997 and it underpins Metro's attainment of the corporate plan goal to improve the reliability, safety and quality of services to customers.⁴⁸ The Customer Charter requires Metro to work towards the achievement of a set of standards of service.⁴⁹

An independent market research company has been engaged by Metro to undertake regular surveys (currently four times a year) to assess Metro's performance against these standards of service.⁵⁰ These surveys were originally undertaken using trained staff (mystery shoppers) to use Metro's services and provide an independent and consistent ranking of Metro's services

⁴⁷ Metro Submission, p69.

⁴⁸ Metro Submission, p69.

⁴⁹ See Appendix F for the standards of services prescribed in Metro's Charter.

⁵⁰ Metro Submission, p69.

against a broad range of criteria.⁵¹ In March 2000, the survey methodology was revised so that the feedback from mystery shoppers was supplemented with the views of passengers by way of a questionnaire about Metro's standards of services.

Metro considers that, in general, the surveys show that Metro's performance is of a long-term high standard. However, Metro has not been able to measure its on-time performance in any reliable way with its current ticketing system. Metro indicates that it is planning to introduce a new GPS-linked ticketing system, which will provide a reliable means of monitoring actual performance against the published timetable as well as providing each vehicle with a synchronised and accurate clock.

The following provides a summary of some of the results of the survey conducted in October 2002.⁵²

On time performance

The surveys show that 92 per cent of Metro's departures were on time from major termini including 3 per cent that departed early. This result is comparable with the levels achieved by Victorian metropolitan busses with 91.5 per cent running on time.⁵³ The Commission notes that the parameters for the measurement of 'on-time performance' vary slightly between Tasmania and Victoria, thus the results are only indicative.

As mentioned earlier, Metro notes that the reliability of reporting of 'on time performance' could be improved by the implementation a new ticketing system. In its submission, DIER states that 'on-time performance' and 'early running' are important issues for Metro's passengers, and agrees that a GPS-linked ticketing system will assist Metro in monitoring its on-time performance.⁵⁴

Driver Performance

The level of service provided by Metro's drivers was assessed at 77 per cent through the passenger surveys and mystery shoppers. This result is lower than the average of the previous 15 periods of 85.6 percent.

Passenger Safety

One of the community goals of the Government's recently released Tasmania *Together* policy is:⁵⁵

⁵¹ Metro Submission, p69.

⁵² Birkett & Associates. *Marketing Research Report* in respect to *Moment of Truth Survey* (October 2002).

⁵³ Victorian Department of Infrastructure. *Track Record 12* – A quarterly performance bulletin assessing Victoria's Train, Tram and Bus Services.

⁵⁴ DIER Submission, p3. In its submission, DHHS is also supportive of the proposal of introducing 'Smart Card' ticketing system

⁵⁵ Tasmania *Together* Policy Statement. Goal 2 – Have a community where people feel safe and are safe in all aspects of their lives.

to have a community where people feel safe and are safe in all aspects of their lives.

The Government has devised a benchmark and a series of targets relating to the percentage of the public who feel safe on public transport. A survey conducted by the Australian Bureau of Statistics (ABS) found the percentage to be 53 per cent in 2000.⁵⁶ The *Tasmania Together* target is to reach 85 per cent by 2020.

Metro takes several measures to ensure the safety and security of its passengers and drivers. Section 7.2 of Metro's submission details the measures taken by Metro to attain higher levels of passenger and driver security.

The independent market research survey based on a sample of Metro's customers rates Metro on personal safety and security on three criteria:

- Waiting to catch the bus - 74 per cent
- Travelling on the bus - 80 per cent
- After getting off the bus - 79 per cent

These ratings show that Metro's passengers perceive the safety of the services provided by Metro to be quite high, especially when compared to the ABS findings in the *Tasmania Together* document. However, the ABS findings relate to public perception of public transport in general, whereas the independent market research survey covers passengers' perception of Metro's services.

3.2.2.3 Overall Customer Satisfaction

Metro's service provision, based on a number of measures, was rated by its customers to be above 80 per cent. This result compares favourably with that in Victoria. In a report produced by the Victorian Department of Infrastructure⁵⁷, the overall level of customer satisfaction with Metropolitan busses in the September quarter 2002 was stated to be around 72 per cent.

3.2.3 Public Transport Integration

Metro is expected to effectively integrate with other public transport services, including taxis, where sufficient customer need exists.⁵⁸

The Commission notes that there are no objectively quantifiable indicators to measure Metro's effectiveness in integrating with other public transport services. However, there is, evidence of considerable effort on Metro's part towards this goal even though there is a limit to what Metro could do in integrating public transport systems which, to a large extent, entails planning and implementation at State and Departmental level.

⁵⁶ *Tasmania Together* Policy Statement.

⁵⁷ Victorian Department of Infrastructure. *Track Record 12* – A quarterly performance bulletin assessing Victoria's Train, Tram and Bus Services, p16.

⁵⁸ Shareholder Expectations statement.

Metro feels that the primary responsibility for the integration of public transport rests with DIER.⁵⁹ DIER's submission appears to agree with Metro's view.⁶⁰ DIER states that:⁶¹

[it] is currently acting to finalise contractual arrangements for core services in regional areas prior to commencement of the review core services...it will be the role of the review process itself to closely scrutinise ways in which service interconnectivity and integration can be improved at the local and regional level.

Notwithstanding this issue, Metro states that it has identified several opportunities to improve the integration of public transport through such actions as:⁶²

- working with the Glenorchy Council and the taxi industry to revise the use of bus stops with the Glenorchy bus mall after hours so that the after-hours taxi rank can be located within the bus station area;
- participating in the development of the new Launceston Transit Centre providing an interface between urban and regional bus services. This will enable opportunities to be identified to improve the level of integration (such as poor connections between services); and
- an agreement with Tassie-Link/TigerLine to enable passengers on the new "Spirit" services to buy vouchers that can then be traded for Metro day tickets when passengers disembark in Burnie, Launceston or Hobart.

In its submission to the Commission, Tassie-Link submits that it has found that Metro to be willing and eager to work with them on the integration of services. However, TassieLink believes that the integration process has been made more difficult by differing ticketing systems and fares structures.⁶³

Metro notes that the introduction of the new ticketing system will provide opportunities for improved integration by enabling passengers to use the same card for travel on services provided by different operators.⁶⁴ Metro believes that to a certain extent this has already occurred in relation to student passengers. DIER currently issues transfer passes to students to move between different operators without the need to pay an additional fare.

Although the transfer-pass structure currently only applies to students, Metro has worked with other bus operators to provide for interconnection services for easier travel in areas where direct services are not available.⁶⁵ An example cited by Metro is the arrangement between

⁵⁹ Metro Submission, p90.

⁶⁰ DIER Submission, p6.

⁶¹ DIER Submission, p6.

⁶² Metro's Submission, pp90 -91.

⁶³ TassieLink Submission.

⁶⁴ Metro Submission, p91.

⁶⁵ Metro Submission p 91.

Metro and a private sector operator to provide the inter-connection services between Metro's Racecourse bus-stop and St Virgil's College at Austin Ferry.

3.2.4 Public Comments Regarding Integration of Public Transport Systems

The Commission has received a number of submissions that comment on the matter of integration of public transport systems. Some of the comments are outlined below.

The Department of Education (DoE) submits that students connecting from private bus operators to services offered by Metro should expect minimal waiting times between individual legs of their journey.⁶⁶ The Commission believes that this is also a matter for Metro to address in the context of developing and providing a 'safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups.'⁶⁷

A member of the public suggests that Metro could better integrate its services to accommodate those wishing to travel by bicycle for some of their journey.⁶⁸ The Commission has forwarded this suggestion to Metro for direct reply.

MerseyLink notes in its submission that it has been in discussion with Metro about introducing an integrated bus service between Devonport and Ulverstone. MerseyLink feels that a lack of Government funding and interest in the project was the reason that Metro has not progressed with the proposal. MerseyLink also believes that Metro needs to do more in the area of integration with private bus operators and should be encouraged to do so.⁶⁹

"*Tasmania's own*" REDLINE submits that it is important for the State transport system that Metro integrate with other public transport operators. However, this would need an accurate service costing methodology otherwise there would be potential for Metro to under-price or possibly overprice its services.⁷⁰

The International Association of Public Transport (UITP) believes that if effective integration could be achieved, a reversal of the continuing trend in patronage decline may occur. UITP suggests that the aim should be to encourage a public perception where public transport is not seen as the inferior good.⁷¹

⁶⁶ Department of Education Submission, p3.

⁶⁷ Shareholder Expectations statement. DoE also notes that many Government school students does not have realistic access to other means of transport, and are therefore dependent on safe, efficient and reliable bus services to the school in which they are enrolled.

⁶⁸ Submission from Anne Burnett.

⁶⁹ MerseyLink Submission, p2.

⁷⁰ "*Tasmania's own*" REDLINE Submission.

⁷¹ The International Association of Public Transport Submission.

3.3 Conclusion

The Expectations Statement provides the basis for assessing the effectiveness of Metro service delivery for the purpose of this Investigation.

The Commission found it difficult to draw any definite conclusion regarding Metro's effectiveness in meeting the travelling needs of the main client groups from the 'first boardings per bus kilometre' indicator that Metro is currently using. The Commission considers that indicators should be directly relevant to the effectiveness in meeting the travelling needs of the main client groups.

In relation to service quality, the two service quality measures currently used by Metro provide good indication of Metro's performance in this area.

The 'complaints per million first boardings' gives a good indication of the level and quality of Metro services. However, given the limited data available, there is insufficient time for meaningful analysis of any trend. As observed by the Commission, this measure, in time, could prove useful as a broad measure of the general level of consumer satisfaction with the services provided by Metro.

The use of 'performance against Customer Service Charter' provides another key performance indicator for measuring the level and quality of Metro's services. The Commission notes the observations made in the Birkett Report⁷² that, although Metro could improve its services in some areas, Metro's services in general continue to be provided at a high level. In general, the Commission is satisfied that Metro has achieved a high level service standards in fulfilling the objective of 'ensuring a suitable focus on customers and quality in service delivery'.

In regards to achieving the objective of 'effectively integrate with other public transport services, including taxis, where sufficient customer needs exist', the Commission recognises that Metro is limited in what it can do. There are also no objectively quantifiable indicators to measure Metro's effectiveness in integrating with other public transport services. Notwithstanding this, the Commission notes that Metro has applied some effort towards this goal. Metro's activities to promoted this objectives should be reported.

⁷² Birkett & Associates. *Marketing Research Report* in respect to *Moment of Truth Survey* (October 2002).

4 FINANCIAL PERFORMANCE, EFFICIENCY AND MAXIMUM REVENUES

4.1 Introduction

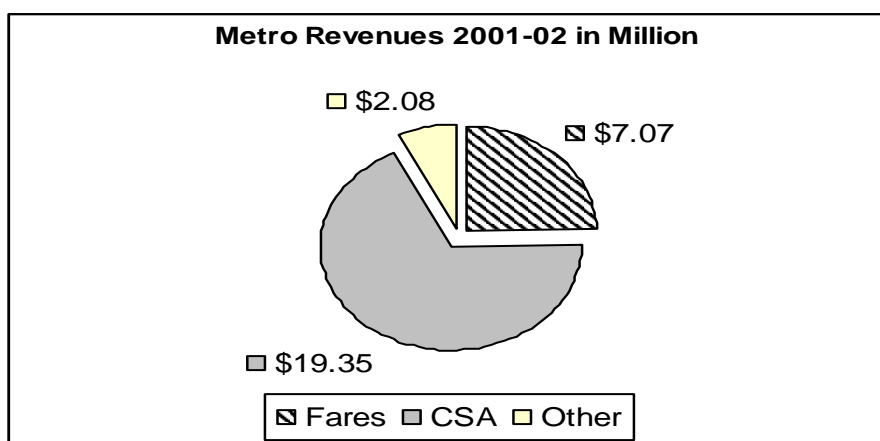
The Commission is required to assess the efficiency of Metro's services and recommend the appropriate maximum prices and price adjustment mechanism.⁷³

This Chapter will discuss the financial performance and efficiency of Metro's operation before recommending the maximum prices for Metro and the relevant adjustment mechanism.

4.2 Revenues

Metro's revenues come mainly from two sources – fares revenue and Government CSA contract funding. The composition of Metro's revenues for 2001-02 is illustrated in Figure 4.1 below.

Figure 4.1: Metro Revenue 2001-02



Source: Metro and Metro Annual Report 2001-02.

Figure 4.1 shows that in 2001-02 Metro received about 70 per cent of its funding from the CSA payment, approximately 25 per cent from fares and the remainder from other business activities.

4.2.1 CSA payments

CSA payments received by Metro for the previous financial years were:⁷⁴

- 1999-00: \$18.730 million

⁷³ Terms of Reference.

⁷⁴ Metro Submission, p41.

- 2000-01: \$18.829 million
- 2001-02: \$19.346 million

4.2.2 Fare Revenues

Since 1991 there have been four Metro fare increases:⁷⁵

- In January 1995: an increase of around 10 per cent on adult and child single trip fares and around 5 per cent on adult and child 10-trip fares.
- In July 1996: an increase of around 10-15 per cent on adult and child single trip fares and around 20 per cent on adult 10-trip fares (to standardise the discount on these fares at 20 per cent relative to single trip). At the same time, adult metro-10 fares increased in line with the single trip increases.
- In July 2000: an increase of around 4.5-9 per cent on adult and single trip fares and a 4.5-9 per cent increase on adult 10-trip fares. Concession single trip fares increased by 10 cents (8.3 per cent) and the concession off peak day-tripper and day-tripper-10 fares rose by 10.5 per cent; and
- In September 2002: an increase of around 4-8 per cent on adult and single trip fares and a 4.5-12 per cent increase on adult 10-trip fares. Concession single trip fares rose by 10 cents (7.7 per cent) and the concession day-tripper ticket rose by 4.6 per cent.

However student fares have remained the same since 1996.

4.2.2.1 Current Fares

The same schedule of fares applies in Hobart, Launceston and Burnie. The current fares are set out in Table 4.1.

Table 4.1: Fares as from 15 September 2002⁷⁶

Category	Single	Daily	10-Trip	10-Day	Month
Adult					
Section 1-2	1.40		11.20		
3-4	1.80		14.40		
5-7	2.10		16.80		
8-10	2.30		18.40		
11-15	3.20		25.60		
Off-peak multi-trip		3.60		28.80	
Adult Concession					
All sections	1.40		11.20		
Concession off-peak multi-trip		2.20		17.60	
Seniors all day multi-trip		2.30		19.30	

⁷⁵ Derived from Metro fares schedules.

⁷⁶ Northwest Coast services do not have monthly tickets.

Category	Single	Daily	10-Trip	10-Day	Month
Family					
Family off-peak multi-trip		10.20			
Children & School Students					
Under 5 years of age			no charge		
- other than to/from school or day care centre					
- day care centre group travel	.60				
Child Under 16 years of age					
- all sections	1.20	2.20	9.60	17.60	38.40
Tertiary Students (full time)					
Section fares	As per adults		11.50		46.00
Tertiary off-peak multi-peak		2.20		17.60	
Parcels					
- other than passengers' luggage of approved size & weight		1.40			

Source: Metro Submission, p46.

The Metro fare structure comprises five fare types (single, daily, 10-trip, 10-day and monthly) and six fare levels (adult, adult concession, family, children and school students, full time tertiary students and parcels). Fares vary according to the number of sections travelled and time of travel (ie some off-peak fares are available).

In Chapter 5 of the Draft Report, the Commission discusses the relevant issues concerning fares, including an assessment of Metro's fares in comparison with both private and interstate public sector operators.

4.2.3 Metro's CSA Funding Arrangements

The CSA funding arrangement for Metro's services is based on the break-even funding model.⁷⁷ Metro notes that the break-even approach has derived from the deficit funding approach in the days of the Metropolitan Transport Trust (MTT). Prior to February 1998, urban public transport services in Hobart, Launceston and Burnie were provided by the MTT which was a statutory authority. The Government corporatised the MTT on 2 February 1998, which had the effect of, among other things, vesting in Metro the ownership and management responsibility for services previously provided by the MTT.

Previously, MTT received Government funding equal to the difference between the costs of operating the services and the revenues obtained from fares and other activities. The break-even approach to the funding of Metro's services has continued in the two CSA agreements following the corporatisation of the MTT in 1998. The annual CSA payments have been estimated to be the net amount required to cover Metro's cost of service provision after taking account of all other revenues.

Under the CSA agreement, Metro is required to provide a set of services specified in the agreement in the three service areas, Hobart, Launceston and Burnie. The payments for these

⁷⁷ Metro Submissions, p42. DIER Submission, p1.

services are separately identified for the three service areas and are adjusted quarterly for movements in the Metro Index⁷⁸ as well as for other reasons including:

- changes in the services;
- changes in Government policies; and
- decisions by the Government not to increase fares in line with the Metro Index (due to the impact of such decisions on Metro's revenue streams).

The adjustments to the CSA payments for these additional reasons are as agreed by the contracting parties.

4.2.4 Future Government Funding Arrangements

Metro is now in the currency of its third CSA agreement since its establishment. The current CSA agreement is due to expire on 30 June 2004. In relation to the future Government funding arrangements, Metro submits that:⁷⁹

..the contract for the provision of services with the Government should adequately compensate Metro for the full costs of operating the service, which in all normal commercial environments would incorporate a return on equity.⁸⁰

On the matter of allowing a return on capital, DIER believes that it is unnecessary for the Government to provide an automatic return on capital to Metro so that it can be declared as a dividend later on.⁸¹

Ultimately, it is the Government's decision as to whether to allow a return of capital in the funding of Metro's services. However, as part of assessing the effectiveness of the existing CSA agreement in achieving Government public transport objectives, the Commission has examined the current CSA funding model in Chapter 6.

4.3 Metro Financial Position

Table 4.2 below shows Metro's forecast financial position assuming the current level of fares, contract revenue, trends in passenger numbers and Metro's own assumptions regarding costs and efficiencies over the period to 30 June 2005.

⁷⁸ See Chapter 7 of the Draft Report for the discussion of the role of Metro Index.

⁷⁹ Metro Submission, P44.

⁸⁰ Metro Submission, P44.

⁸¹ DIER Submission, p1.

Table 4.2: Metro Tasmania Summary Profit and Loss Statement

	2000-01⁸²	2001-02⁸³	2002-03	2003-04	2004-05
	\$'000	\$'000	\$'000	\$'000	\$'000
Fare-box Revenue – Scheduled Route Services	7 178	7 141	7 690	7 808	8 027
Contract Revenue	18 829	19 558	19 710	20 031	20 910
Other Revenue	1 852	1 789	1 165	1 020	1 020
Total Revenue	27 859	28 488	28 565	29 129	29 957
Operating Expenses – Scheduled Route Services	27 614	27 852	28 372	28 991	29 805
Interest Expenses	262	227	193	179	167
Total Expenses	27 876	28 079	28 565	29 170	29 972
Net Profit/Loss before/after Tax	-17	409	0	-41	-15

Source: Metro Annual Report 2001/2002 & Metro Corporate Plan 2002/3 to 2004/5

As was the case in the 2000 Investigation, the forecast expenses for the provision of scheduled route services exceed the total of the fare box revenues and CSA payments. Revenues from other sources contribute to the provision of scheduled services.

4.3.1 Financial Indicators

The Metro Submission shows that its operating expenditure per bus kilometre decreased from \$3.01 in 1989-90 to \$2.73 in 2001-02.⁸⁴

Metro notes that between 1989-90 and 2001-02, patronage has declined but kilometres has increased with a marked increase occurring in 1991-92 following the introduction of Metro express services.⁸⁵

Metro states that the real costs to Government of purchasing Metro services has declined significantly over recent years when inflation is taken into account. The real costs to Government per passenger trip are equal to what it was ten years ago and higher than that in 1989-90.⁸⁶

4.3.2 Returns to Government

The Government's policy in relation to its GBE and State-owned companies (SOC) is for dividend payments equal to:

⁸² Actual figures taken from Metro Submission p41 & Metro Annual Report 2001/02.

⁸³ Actual figures taken from Metro Submission p41 & Metro Annual Report 2001/02.

⁸⁴ Metro submission, p41.

⁸⁵ Metro submission, p40.

⁸⁶ Metro submission, p40.

- at least 50 per cent of after tax profits; or
- an amount such that when added to income tax equivalent payments, the total of dividends and tax equivalent payments will equal 70 per cent of pre-tax profits.

Metro advises that it has been paying 70 per cent of pre-tax profit and has paid two dividends to the Government in the past three financial years.⁸⁷

4.3.3 Non-financial Indicators

The non-financial performance indicators are reflective of the underlying cost structures of Metro and any analysis of the financial performance of Metro must be undertaken in the context of its service performance. The Commission has compiled the selected non-financial performance indicators that were provided by Metro in the previous Investigation.

Table 4.3: Non-Financial Performance Indicators

	1998-99	1999-00	2000-01	2001-02
Total Boardings per km	.92	.91	.94	.94
Average FTE per million kms	36.28	36.64	36.19	35.41
Average FTE per vehicle	1.80	1.72	1.80	1.81
Vehicles in excess of maximum daily demand %	11.6	11.7	11.8	12.1
Kilometres per vehicle	49 609	46 946	49 735	51 121
On-time performance %	87.1	88.3	91.2	92.5

Source: GPOC's calculations based on Metro Annual Reports, Metro Submission and Metro Surveys.

4.4 Efficiency of Metro Operation

Metro has commissioned a consultant (Indec) to conduct a benchmarking assessment of Australian bus operators. The survey conducted by Indec involves approximately 90-100 bus operators in Australia. At the time of the release of the Commission's Draft Report, Indec has obtained financial and operating information from all mainland public sector bus operators and 57 private sector bus operators.⁸⁸

Indec's report is commercial-in-confidence and has been of major assistance to the Commission's assessment of the efficiency of Metro's operation. As mentioned in Chapter 1, Metro has tendered a supplementary submission outlining the findings in Indec's report.

4.4.1 Metro's Performance as compared with other Public and Private operators.

The Indec study breaks down costs of bus operators into four major components:⁸⁹

⁸⁷ Metro, 13 May 2003.

⁸⁸ Metro Supplementary Submission, p3. Metro states that the number of responses may well increase through time but Indec has advised that any increase in sample size is not expected to alter the conclusions of the survey presented in the study.

⁸⁹ Metro Supplementary Submission, p9.

- Bus driving costs – these are direct wages associated with the driving of buses together with associated on-costs. These costs were analysed per bus-hour.
- Bus operating costs – these are costs primarily associated with the operation and maintenance of buses including fuel, tyres, oil, repairs and maintenance, cleaning, and other similar bus operating expenses. These costs were analysed per bus-kilometre.
- Bus overhead costs – these costs include administration salaries and on-costs and other overhead costs. These costs were analysed per bus-hour.
- Bus capital costs – these costs relates to the depreciation, amortization and interest costs associated with vehicles.

The Indec study finds that Metro is the lowest cost public bus operator in Australia and an average cost operator in the private operator cost range.⁹⁰ The following figures illustrate Indec's comparative analysis of Metro's performance with other public and private sector bus operators in Australia.⁹¹

4.4.1.1 Driving Costs

Figure 4.2: Comparison of Public Operators

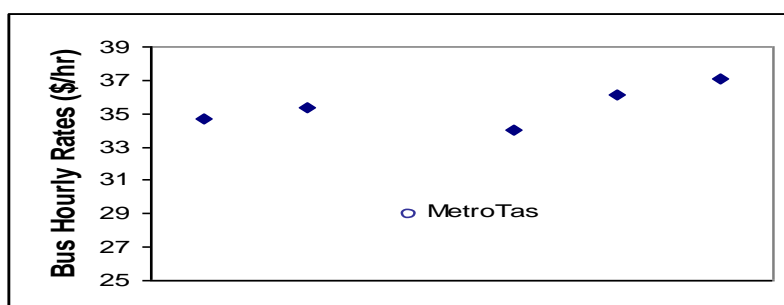


Figure 4.3: Comparison of Private Operators

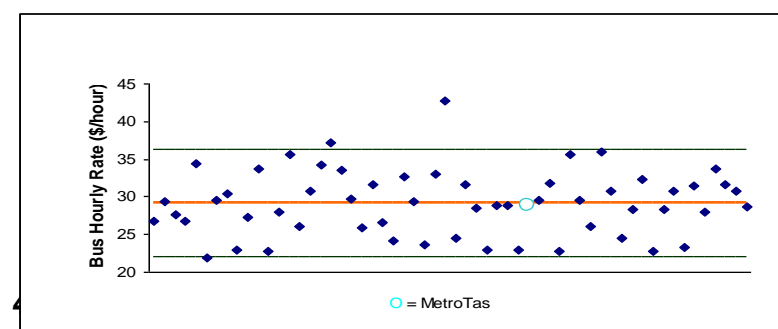
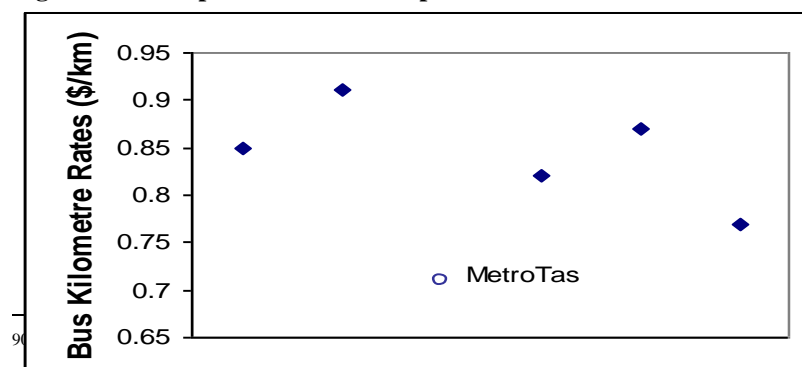
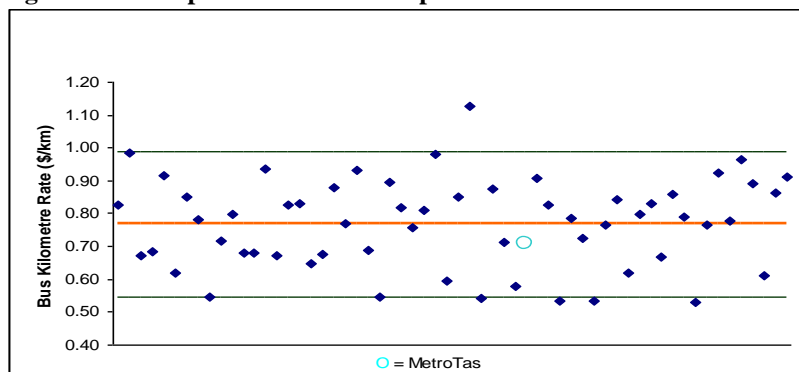


Figure 4.4: Comparison of Public Operators



⁹¹ Metro Supplementary Submission, pp4-7.

Figure 4.5: Comparison of Private Operators



4.4.1.3 Overhead Costs

Figure 4.6: Comparison of Public Operators

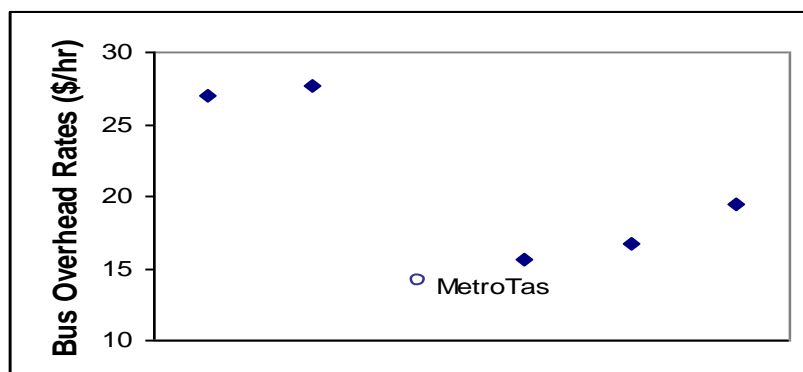
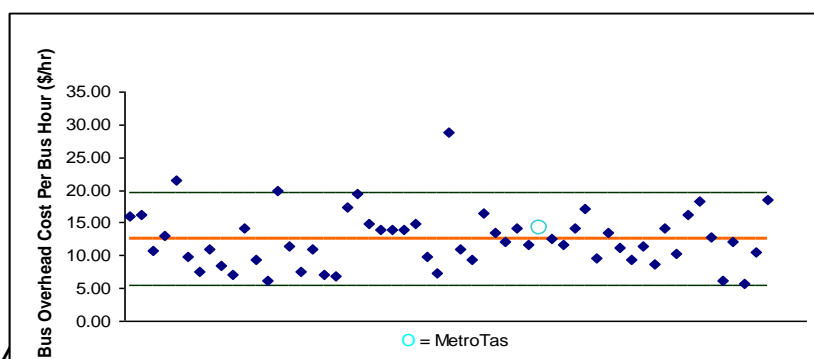


Figure 4.7: Comparison of Private Operators



In addition to comparing Metro's performance with other public and private sector bus operators, Indec has adopted for comparison an 'average best practice operator' (the Benchmark), on the basis that no operator is best practice on all categories. A subset of low to average cost operators has been selected from the sample of 57 private operators. The average costs of these operators (best practice costs) are normalised to the same bus hours and kilometres as Metro in 2001-02.

Table 4.4 below shows the comparative performance of Metro and the Benchmark.

Table 4.4: Comparative Analysis

	Metro	Average Best Practice	Variance %	Variance in Costs
Direct Expenses				
Bus Hourly Costs				
Driver Wages	12,489,958	12,091,856	96.8%	398,102
Bus Kilometre costs				
Mechanics, Cleaners & Refuellers	2,135,317	1,211,800	56.8%	923,517
Bus Maintenance	452,910	712,279	157.3% -	259,369
Bus Running	3,562,133	3,599,426	101.0% -	37,293
Bus Parts and Materials	1,187,377	1,035,015	87.2%	152,362
Total Bus Kilometre Costs	7,337,737	6,558,520	89.4%	779,217
TOTAL DIRECT EXPENSES	19,827,695	18,650,376	94.1%	1,177,319
Indirect Expenses				
Bus Overhead Costs				
Salaries	2,980,685	2,803,751	94.1%	176,934
Other	3,095,707	2,918,772	94.3%	176,935
Total Bus Overhead Costs	6,076,392	5,722,523	94.2%	353,869
Capital				
Depreciation	2,839,795	3,083,460	108.6% -	243,665
Debt Servicing	226,988	1,406,058	619.4% -	1,179,070
Total Capital Costs	3,066,783	4,489,518	146.4% -	1,422,735
TOTAL INDIRECT EXPENDITURE	9,143,175	10,212,041	111.7% -	1,068,866
TOTAL EXPENDITURE	28,970,870	28,862,417	99.6%	108,453
TOTAL EXPENDITURE excluding Capital	25,904,087	24,372,899	94.1%	1,531,188

Overall, Indec finds that compared with the Benchmark costs:

- Metro's driver costs are marginally higher.
- Metro's bus kilometre costs are higher:
 - Metro employs .08 more mechanics per bus at \$1.71 higher per hour.
 - Metro's fuel costs are 3.1 cents higher per kilometre despite fuel costs are 3.35 cents per litre lower.
- Metro's overhead costs are marginally higher and the biggest variance is in administrative salaries.
- Metro's capital costs are significantly lower reflecting Metro's much lower debt to equity ratio.

Indec suggests that a number of the variances in costs can be attributed to Government ownership. It notes that public sector awards are more generous than private sector, and also provide more generous leave provisions. This is evident from the calculation that attendance hours as a percentage of paid hours at Metro is approximately 86 per cent compared to 89 per cent for an average best practice private operator.

4.5 Commission's Assessment

The Commission has not made any comparative analysis of Metro's efficiency against other Tasmanian public transport operators due to the lack of comparable operations in the State. There is only one other Tasmanian operator (Merseylink) that provides Metro type services⁹² and it is a private sector operator. There is limited publicly available information that the Commission may use for any meaningful comparative analysis.

4.5.1 Driver Wages

Indec's study shows that Metro uses 33 more drivers than the Benchmark as a result of Metro's drivers spending more time on other duties.⁹³ Metro's driver award rates are lower but payroll on-costs are higher than the Benchmark. Overall, Metro's paid rates are on average 44 cents per hour lower than the Benchmark.

Indec observes that the key challenge for Metro is to improve driver utilisation and overhead costs. The Benchmark's drivers are typically on the road for 95 per cent of their attendance hours compared to 83.5 per cent for Metro.

It appears that the Benchmark's higher level of driver utilisation has been achieved by extensive use of casual workers and charter/contract work. However, Indec notes that charter/contract work may not be readily available at adequate margins in Tasmania. Indec considers that the combined effect of the low charter/contract work and limited use of casual workers severely constrains Metro in addressing the stand-by time. Indec also notes that Metro incurs a short and sharp peak demand.⁹⁴ After adjusting for these factors, Indec has made the following comparisons of driver productivity:

⁹² Hobart Coaches, which provides bus services in Kingston and Blackmans Bay areas, is a subsidiary of Metro.

⁹³ Duties such as refuelling and cleaning/maintenance activities and office/supervisory duties.

⁹⁴ Metro Supplementary Submission, pp7-8.

Table 4.5: Driver Productivity

Driver Productivity Ratio	MetroTas	Average best practice private operator
Attendance/paid hrs	86.4%	87.7%
Bus/attendance hrs	83.5%	84.65%
Bus/paid hrs	72.1%	74.24%

After analysing Indec's data, the Commission considers that an efficiency factor of 95 per cent is appropriate for Metro's driver costs taking into account a potential driver productivity gain of 5 per cent. The Commission is aware that Metro's driver award rates are higher than the private sector in Tasmania. Notwithstanding this, the Commission has not made any adjustments to benchmark hourly rates because of the 'no detriment provision'.⁹⁵

4.5.2 Mechanics, Cleaners & Refuellers

The Commission applies an efficiency factor of 71.4 per cent to this cost item reflecting the overall cost of mechanics (a total of 49 mechanics). Metro uses 0.25 mechanics per bus compared with the Benchmark of 0.17 per bus. In making the adjustment, the Commission has also taken into account Metro's drivers also performing other duties such as refuelling and cleaning/maintenance activities and office/supervisory duties.

4.5.3 Bus Maintenance

Metro's bus maintenance costs are more than 57 per cent lower than the Benchmark. Neither Metro nor Indec provides an explanation for this. The Commission has not made any adjustment to Metro's bus maintenance costs.

4.5.4 Bus Running

About 90 per cent of bus running costs are typically related to fuel. Given that fuel costs vary considerably between states, no useful comparison can be made. No adjustment is made on bus running costs.

4.5.5 Bus Parts and Materials

Metro's bus parts and materials costs are about 13 per cent higher than the Benchmark. The Commission has applied an efficiency factor of 87.2 per cent to this cost item.

⁹⁵ In the case of *the Australian Rail Tram & Bus Industry Union v Torrens Transit Services Pty Ltd*, the Court held that the *Workplace Relations Act 1996* applied to the transfer of business through a competitive tender of public transport services by the South Australian Passenger Transport Board. The effect of the Federal Court's decision is that a new employer is bound by historical employment conditions unless a new agreement is reached with the relevant employees. Metro advises in its supplementary submission that the likely compensation costs would outweigh any expected operational efficiency gained from a downward change in employment conditions. Metro Submission, p59.

4.5.6 Other Salaries

Metro's other salaries are about 6 per cent higher than the Benchmark.

Whilst recognising that Metro may incur additional costs arising from Government ownership, the Commission notes that private sector operators also have substantial compliance and reporting obligations. Hence the Commission allows a 50 per cent reduction in the efficiency gap in recognition of the diseconomy of Government ownership. The Commission applies an efficiency factor of 97 per cent to this cost item.

4.5.7 Other Overhead Costs

Metro's other overhead costs are over 5.5 per cent higher than the Benchmark. Allowing a 50 per cent reduction in the efficiency gap in recognition of the diseconomy of Government ownership, the Commission applies an efficiency factor of 97.1 per cent to this cost item.

4.5.8 Capital Charges – Depreciation, Debt Servicing and Return on Capital

Indec observes that the Benchmark incurs significantly higher capital costs because of its capital structure (Metro carries very little debt). However, Indec also includes an allowance for commercial returns on efficient costs.

Indec states that, assuming a private sector operation and best practice private sector costs, allowing the private sector operator a commercial return would have cost the Government an additional outlay of \$2.11 million. It also comments that there would be transition costs in transferring from Government to private ownership.

The Commission notes that Indec does not appear to have assessed the efficiency of Metro's capital. For example, there are no comments about bus fleet size (spare bus ratio), or about buildings, fleet age, or capital cost of buses. Neither does the report contain sufficient information to ascertain what capital base has been assumed or what rate has been used for an opportunity cost of capital.

The Commission observes that the Benchmark depreciation allowance is higher than that of Metro. This suggests that Indec assumes a more rapid depreciation or a larger capital base. The Commission has not made any adjustment in Metro's capital and debt servicing, but has allowed a pre-tax 'opportunity cost' (expressed in real terms) of 7 per cent on the capital assets. The allowed opportunity cost is based on a weighted average rate of return which takes account of the risks that Metro faces, a commercial debt to equity ratio and commercial costs of debt.

The allowance of opportunity cost on Metro's capital assets is a recognition that a private operator undertaking Metro's services on contract would require a commercial return on capital employed in the business. DIER agrees that it is appropriate to include a return on equity in benchmark assessments.⁹⁶

⁹⁶DIER Submission, p1. There is a view that Metro should be providing a community service and should not therefore be required to earn a profit. But it is necessary to conceptually separate the role of Government as owner from its role as the purchaser of a community service. If this distinction is not made, the fact that the community has capital tied up in Metro's capital that should be earning a return is obscured.

A rate of return of 7 per cent real pre-tax represents approximately \$1.74 million in annual charges.

4.5.9 Conclusions in Regard to Metro's Efficiency Costs

The Commission's assessment of these factors is shown in Table 4.6 below.

Table 4.6: Metro Efficiency Costs

	Metro Costs	Efficiency Factor %	Adjusted Metro Costs
Drivers	12 489 958	95	11 865 460
Mechanics, Cleaners & Refuellers	2 135 317	71.4	1 525 226
Bus Maintenance	452 910	100	452 910
Bus Running	3 562 133	100	3 562 133
Bus Parts and Materials	1 187 377	87.2	1 035 015
Other Salaries	2 980 685	97	2 892 218
Other Overhead Costs	3 095 707	97.1	3 007 240
Depreciation	2 839 795	100	2 839 795
Debt Servicing	226 988	100	226 988
<i>Return on Capital Assets (7%)</i>	-	-	1 742 300
Total	28 970 870		29 149 285

4.6 Proposal of Maximum Prices

The Commission is required to recommend maximum prices for the provision of scheduled route services by Metro in Hobart, Launceston and Burnie/Ulverstone.

In proposing maximum prices for Metro services, the Commission considers that the benchmark should be that cost which would be incurred by an efficient operator undertaking the same services. The use of an 'Average Best Practice Operator' in the Indec study provides an appropriate benchmark for assessing the maximum allowable revenues for Metro services.

Charter work undertaken by Metro is not an activity regulated by the Commission and costs and revenues associated with charters are excluded from the Commission's assessment of maximum allowable revenue.

4.6.1 Proposed Maximum Revenue

The Commission's proposed maximum revenues which may be earned by Metro from fare-box and Government contribution is \$29.15 million per annum, expressed in 2001-2002 terms and exclusive of GST. This amount should be indexed to reflect changes in underlying costs based on the Metro Index as revised by the Commission in Chapter 7.

The makeup of the allowance is presented in Table 4.7.

Table 4.7 Makeup of Allowance

Allowance Components	\$m
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Allowance Components	\$m
Operating Costs ⁹⁷	24.57
Depreciation	2.84
Return on Capital	1.74
Total	29.15

The assignment of risk between the Government and Metro will be determined in the CSA Agreement and the Government will determine the level of fares. The estimate of the fares revenue which may be received by Metro, and which may be deducted from the Commission's proposed allowance to determine the quantum of the Government contribution, should take account of the underlying trends in patronage and prospective response to any changes in fares.

⁹⁷ Operating Costs include debt servicing of \$226 988.

5 PROPOSED MAXIMUM FARES

The Commission is required to recommend maximum prices for the current provision of scheduled route services by Metro in the metropolitan areas of Hobart, Launceston and Burnie. This is interpreted as requiring a recommendation of the maximum total revenues which Metro may earn for these services. Metro revenues are made up of fare-box receipts, contract revenue from Government, and revenues from other sources such as advertising.

Since the Government contribution accounts for nearly 70 per cent of Metro revenues, Government policies for the provision of public transport, concessions for eligible recipients and education access dictate the level of fares.

This Chapter reflects the Commission's observations and proposals with respect to Metro fares.

5.1 Factors in the Setting of Fares

Factors that the Commission considers relevant include:

- the comparison of costs and revenues for particular groups of Metro services, by location and by time period;
- the comparison of Metro fares and those charged by private operators in Tasmania;
- the comparison of Metro fares and inter-state fares;
- the economic benefits of public transport which may justify, in economic terms, the contribution by Government to Metro's operations; and
- social factors.

These factors are the relevant factors when considering an appropriate adult fare. Some additional factors that the Commission feels are relevant to considering the level of fares for students and concession travellers include:

- comparison with fares paid by student travellers on Tasmanian private bus operations;
- comparison with subsidies paid by Government for student travel on private bus operations; and
- comparison of Tasmanian and inter-state concessions policy.

5.1.1 Relationship between Costs and Revenues

In the 1997 Investigation, the Commission examined the relationship of costs and revenues for Hobart, Launceston and Burnie for services provided in peak, interpeak, evening and weekend/public holiday periods. The Commission also estimated the Cost Recovery Ratios and the Government's contribution per boarding. For the purpose of this Investigation, Metro

advised the Commission that the cost and revenue assumptions and estimates are still valid based on Metro's information. However the Commission notes that the following has occurred since 1996:

- fares have increased by varying degrees across all categories other than child/student fares;
- Metro fares revenue has decreased by 10.2 per cent;
- Metro's total revenue has increased by 1.6 per cent; and
- Metro's costs have decreased by approximately 4 per cent.

These changes would potentially impact on the cost allocations specified below.

5.1.2 Cost Allocation Assumptions

Costs have been attributed to services in accordance with the principles shown in Table 5.1 below:

Table 5.1: Cost Allocation Assumptions

Cost Category	Peak	Inter-Peak	Evening	Weekend/ Public Holiday
Driver hours ⁽¹⁾	Driver Hours	Driver Hours	Driver Hours	Driver Hours
Bus-time related	Bus Hours	Bus Hours	Bus Hours	Bus Hours
Bus-km related	Bus Km	Bus Km	Bus Km	Bus Km
Bus capital	Peak Buses	—	—	—
Other capital	Bus Hours	Bus Hours	Bus Hours	Bus Hours
Overheads	Bus Hours	Bus Hours	Bus Hours	Bus Hours

⁽¹⁾ Driver Hours are scaled to reflect penalty loadings payable to drivers for spread-shift, overtime and weekend/public holiday penalty rates.

It could be argued that the costs of 'Other Capital' and 'Overheads' should be fully allocated to peak services. If so, the estimates shown in Table 5.1 would tend to over-state the avoidable costs of operating evening and weekend/public holiday services. However, the quantum of 'Other capital' and 'Overheads' is not so significant as to materially impact on the indicative outcome.

5.1.3 Cost Recovery Ratios

Table 5.2 below shows estimated cost recovery ratios for each sector.

Table 5.2: Cost Recovery Proportions

	Peak	Inter-Peak	Evening	Weekend/ Public Holiday
	%	%	%	%
Hobart Timetabled	29	24	15	23
Hobart Dedicated	32			

	Peak	Inter-Peak	Evening	Weekend/ Public Holiday
	%	%	%	%
School				
Launceston Timetabled	24	29	46	24
Launceston Dedicated School	38			
Burnie Timetabled	18	24		
Burnie Dedicated School	39			

Note: Cost recovery proportion estimates have been reviewed by Metro in April 2003.

Based on the scaled boarding data, the Commission estimated the average deficit per boarding for each of the service categories, shown in Table 5.3 below.

Table 5.3: Government Contribution per Boarding

	Peak	Inter-Peak	Evening	Weekend/ Public Holiday
	\$	\$	\$	\$
Hobart Timetabled	2.11	2.64	4.86	2.54
Hobart Dedicated School	1.27			
Launceston Timetabled	2.85	2.22	1.06	2.75
Launceston Dedicated School	0.95			
Burnie Timetabled	3.80	3.17		
Burnie Dedicated School	0.63			

Note: Estimates only.

As was the case with the previous Investigation, these results should be considered as indicative as there are a variety of reasonable approaches to the allocation of costs and a degree of estimation in the allocation of boarding data to service categories, particularly across time periods.

One conclusion that could be drawn from these estimates is that it is apparent that the lowest recovery per boarding arises from Hobart evening services, with a cost to the Government of almost \$5 per boarding.

5.2 Adult Fares

5.2.1 Comparison with Tasmanian Private Operator and Interstate Fares

5.2.1.1 *Tasmanian Private Operator Fares*

As with the previous investigation, the Commission has undertaken a comparison of private operator and Metro fares on a sample of routes of comparable distance in the three regions. The results of the survey are presented in Table 5.4. Given that Metro has sole operation of most urban routes in Hobart, Launceston and Burnie, private operators tend to run services over longer distances in the form of rural or inter-regional services. For this reason, the comparison has been made over distances of four or more Metro sections.

Table 5.4: Comparison of Private Operator and Metro Fares over Equivalent Routes

Operator	Service	Distance km	Single Adult Fare \$	Private Operator Fare Differential %
Metro	Hobart to South Arm	37	3.20	
Private Operator	Grindelwald to Launceston	31	4.40	37.5
Metro	Hobart to Brighton	26	3.20	
Private Operator	Hobart to Pontville	27	4.60	43.8
Metro	Burnie to Ulverstone	27	3.20	
Private Operator	Burnie to Ulverstone	27	5.40	68.8
Metro	Hobart to Cremorne	24	3.20	
Private Operator	Hobart to Midway Point	22	3.90	21.9
Metro	Hobart to Rokeby	14	2.10	
Private Operator	Legana to Launceston	16	2.80	33.3
Metro	Hobart to Clarendon Vale	14	2.30	
Private Operator	Hobart to Kingston	14	3.30	43.5
Metro	North Riverside to Launceston	8	2.10	
Private Operator	Cormiston Creek to Launceston City	8	2.00	-4.8

Source: Survey of Tasmanian private bus operators.

Comparisons have been made over seven routes ranging from eight kilometres (five Metro sections) to 37 kilometres (15 sections). In six of the seven examples, it was found that the private operator fare level ranged from 21.9 per cent to 68.8 per cent higher than the Metro fare over an equivalent distance. Metro's fares have risen for the routes specified above. However the gap since the 2000 investigation has widened with Metro fares being on average nearly 37 per cent lower than that of the private operators, whereas the gap in 2000 was 30 percent. In only one instance was the Metro fare higher and this was over the shortest distance of eight kilometres.

These findings tend to support the view that, particularly for longer routes, Metro fares are set below the level that would apply in a private operation.

5.2.1.2 Interstate Fare Comparisons

The Commission has produced a table comparing the ‘Adult Cash Fares’ charged by Metro to the fares of public transport operators in other Australian capital cities.

Table 5.5: Adult Bus Fare Comparisons – April 2003⁹⁸

Distance	Syd	Bris	Melb	Tas	Adel	Perth	Dar
Single Cash Tickets							
2 kms	\$1.50	\$1.80	\$2.70	\$1.40	\$1.80	\$1.20	\$1.40
5 kms	\$2.60	\$2.60	\$2.70	\$1.80	\$3.20	\$1.90	\$1.40
10 kms	\$3.40	\$3.40	\$2.70	\$2.10	\$3.20	\$2.90	\$1.80
25 kms	\$4.70	\$3.80	\$6.30	\$3.20	\$3.20	\$4.50	\$2.40
Multi-ride (10-trip) Tickets							
2 kms	\$11.30	\$13.80	\$23.40	\$11.20	\$11.10	\$10.20	\$11.20
5 kms	\$18.90	\$20.80	\$23.40	\$14.40	\$20.60	\$16.15	\$11.20
10 kms	\$23.50	\$27.20	\$23.40	\$16.80	\$20.60	\$24.65	\$14.40
25 kms	\$39.80	\$30.40	\$56.80	\$25.60	\$20.60	\$37.40	\$19.20

Source: Estimates from the various transport operators’ websites

The following figure shows the fare comparisons between interstate and Tasmania by distance:

Figure 5.1 Adult Bus Fare Comparisons – April 2003

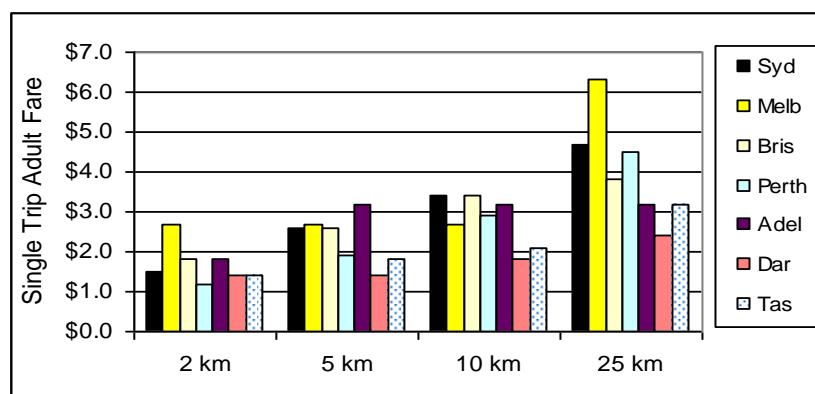


Table 5.5 and Figure 5.1 show that for single cash tickets across all distances, Metro fares are the second lowest. Darwin is the only city that has lower fares than Metro for distances greater than five kilometres, although for a long trip ie 25 kms. Adelaide also has comparable fares. A Metro fare is typically around 75 per cent of the average fare of the other capital cities. For multi-ride (10-trip) tickets across all distances, Tasmanian multi-ride fares rank

⁹⁸ Interstate fares contained within the table are estimates based on information provided within the respective public transport operators website as each state has its own unique structure.

amongst the lowest, with only Darwin (and Adelaide for longer trips) having lower fares than Metro for distances greater than five kilometres.

5.2.2 Economic Factors

In the 2000 Investigation, the Commission noted that provision of subsidies for public transport is warranted, on economic grounds, if there is an implicit subsidy for other means of transport or if there are additional benefits (or avoidable costs) for the community by providing mass transit systems rather than private motorcars.

Some of these benefits may include:

- reduced levels of road congestion
- savings in terms of reduced need for the provision of car parking
- better environmental outcomes

Support for public transport alone is unlikely to reduce car use to such an extent that urban form or the incidence of car use in Tasmanian cities changes to any material extent. Further, while congestion is clearly an issue (and one which may warrant a subsidy for public transport) in the larger cities, congestion is much less of an issue in Tasmanian cities.⁹⁹

Nevertheless, as a matter of public policy, some measure of subsidy for Metro travellers is appropriate on grounds of providing access for the ‘transport disadvantaged’ and improved public amenity (by the avoidance of large areas of dedicated car parking). Whether a subsidy of the same scale as that paid in other states is justified on economic grounds is another matter.

The Commission’s views above are still relevant for the current Investigation.

5.2.3 Patronage Response to Changes in Fares

The price of public transport to the passenger (the fare) influences the degree to which people utilise public transport. This is dependent on the price elasticity. Price elasticity measures the proportional change in demand with respect to a proportional change in price.

As with the vast majority of products, the price elasticity of public transport is negative. This means that if the price goes up, the demand goes down.

Booz Allen Hamilton in its 2000 report¹⁰⁰ calculated Metro’s overall price elasticity at minus 0.4 to 0.5 in the short term, whilst in its 2001 paper¹⁰¹ Fearnley and Carlquist put Metro’s price elasticity at minus 0.5. These are both relatively low elasticities and suggest that the

⁹⁹ DIER Submission, p5.

¹⁰⁰ Booz, Allen and Hamilton – Appraisal of Patronage Trends and Prospects (May 2000).

¹⁰¹ A Tale of Seven Cities: Subsidy Reductions in Norwegian Public Transport (2001) by Nils Fearnley and Erik Carlquist. Referred to in Metro’s Submission p30, footnote 8.

public is not really very responsive in the short term to changes in fares. The following observations relating to price elasticity are taken from the Metro Submission:¹⁰²

- Adult Concession passengers are more responsive (more flexible) to price changes, having a price elasticity of minus 0.6 to 0.75 (BAH and Metro). The responsiveness of Adult and Student / Child passengers would be less than minus 0.4 to 0.5 so that the overall price elasticity averages out to minus 0.4 to 0.5.
- Peak period elasticities are around one third lower (less responsive) than average whilst off peak elasticities are up to 50 per cent greater (more responsive) (Metro).
- The shorter the public transport trip, the more responsive the passenger is to price changes, that is to say, the higher the elasticity (Metro).
- The medium term (about one year) price elasticity of public transport is about minus 0.6 (BAH and Metro), reflecting the greater responsive potential available to the public due to more time to change their travel patterns.
- In the long term, changes in Metro fares have little effect on the demand for public transport because: Metro's price increases are tied to the Metro Price Index, which moves in a similar fashion to the Consumer Price Index; and price elasticity applies only when the price of all other products, including substitutes (private car), stay the same. Over the long run, prices generally go up in much the same way as do Metro's fares, thus ironing out the short term effect of specific fare increases.

5.2.4 Conclusions in Regard to Adult Fares

Taking account of the comparison of interstate and Tasmanian private operator fares, the Commission considers that there is a case for a general increase in adult fares. For single cash tickets across all distances, Metro fares are amongst the lowest, with only Darwin having lower fares for distances greater than five kilometres.

In general, one of the reasons for the provision of a subsidised bus fare is to encourage the use of public transport with the aim of reducing traffic congestion and therefore alleviating costs associated with congestion. Congestion is not considered a significant problem in Tasmania so there is little justification to warrant subsidy on the basis of externalities.

Also given that concessions are provided for travel as a matter of social policy, welfare policy should not be a factor in setting adult fares. Welfare policy should be administered through the level of concession fares if the Government considers that subsidised public transport is an efficient means of delivering income support.

Mr Bob Cotgrove of the University of Tasmania has pointed out in his submission¹⁰³ that the choice between private transport and public transport is due to the changing nature of employment, land use and daily activity patterns. Mr Cotgrove notes that maintenance of concessions for the commuter is in effect a subsidy to those who have access to Metro

¹⁰² Metro Submission, p30.

¹⁰³ Submission from Bob Cotgrove, p1.

services, whose work is close to a Metro service, and who have simple transport needs (point-to-point). Hence the concession may be seen to benefit mostly those living in the city or at least within the catchment area of Metro.

After considering the above in economic terms, there appears to be little justification for the current level of subsidy for full adult fares on peak services. On the face of it, Tasmanian adult fares could realistically be priced at the upper end of the range of fares for interstate capitals.

The cost recovery for peak services (ie generally transport to and from work or school) is about 30 per cent. If all travellers paid full adult fare, cost recovery may rise to about 40 per cent (noting that the majority of adult travel is less than 4 sections, and assuming that concession and student travel patterns are comparable.) Even with a 30 per cent increase in adult fares, cost recovery in peak periods would be less than 40 per cent.

The Commission therefore proposes a 30 percent increase in adult fares and the following table shows the proposed maximum fares based on such an increase in current fares:

Table 5.6: Proposed Maximum Fares

Adult	Current Fares	Proposed Maximum Fares
	\$	\$
Section 1-2	1.40	1.80
3-4	1.80	2.30
5-7	2.10	2.70
8-10	2.30	3.00
11-15	3.20	4.20

Further the Commission considers that the existing 20 per cent discount for the 10-trip ticket should be maintained.

A schedule of the recent fare movements along with the proposed changes is included in this report as Appendix G.

5.2.4.1 Estimated Revenue Impact¹⁰⁴

The estimated impact of the Commission's proposal would be approximately a 12-13 per cent increase in revenue received from full adult fares. This would equate to a 4-4.5 per cent increase in total fare revenue. The estimated impact assumes the following:

- the Commission's proposal of a 30 per cent single fare increase is accepted;
- the discount for the ten trip ticket is held constant; and
- Metro's price elasticity for full fare adults is -0.4 to -0.5.

The cost of the concession given on fares of this nature is ultimately borne by the general taxpayer throughout the State in all urban and rural areas. If the Government accepted the

¹⁰⁴ Estimated tickets sold 2001-02 p48 Metro Submission used as basis for estimations.

Commission's adult fare proposal relating to adult fares, it would have the impact of reducing the CSA payment (subsidy) for this category of Metro passenger.

5.3 Adult Concession Fares

Travel on concession fares is offered by Metro and generally by interstate operators to:

- pensioners and seniors
- Health Care Card holders
- children and students

Student concessions are discussed later in this Chapter.

5.3.1 Concession fares comparisons (Single Ticket)

The primary issue relevant to the appropriate level of concession fare is arguably the relative levels of Tasmanian and interstate concession fares.

A comparison of concession fares provided by interstate operators is shown in Table 5.7 below.

Table 5.7: Concession Fares by Distance as at from 14 April 2003

	Darwin \$	Sydney \$	Melb \$	Bris \$	Adel \$	Perth \$	Canb \$	Metro \$
2 kms	0.70	0.70	1.50	0.90	1.60	0.50	1.30	1.40
5 kms	0.70	1.30	1.50	1.30	1.60	0.80	1.30	1.40
10 kms	0.70	1.60	1.50	1.70	1.60	1.30	1.30	1.40
14 kms	0.70	1.90	1.50	1.90	1.60	1.30	3.00	1.40
22 kms	0.70	2.30	2.40	1.90	1.60	1.60	3.00	1.40
25 kms	0.70	2.30	3.20	1.90	1.60	1.90	3.00	1.40

Source: Estimates based on information provided on the various transport operators websites.

Figure 5.2: Comparison of Concession Fares - Single Trip as from April 2003

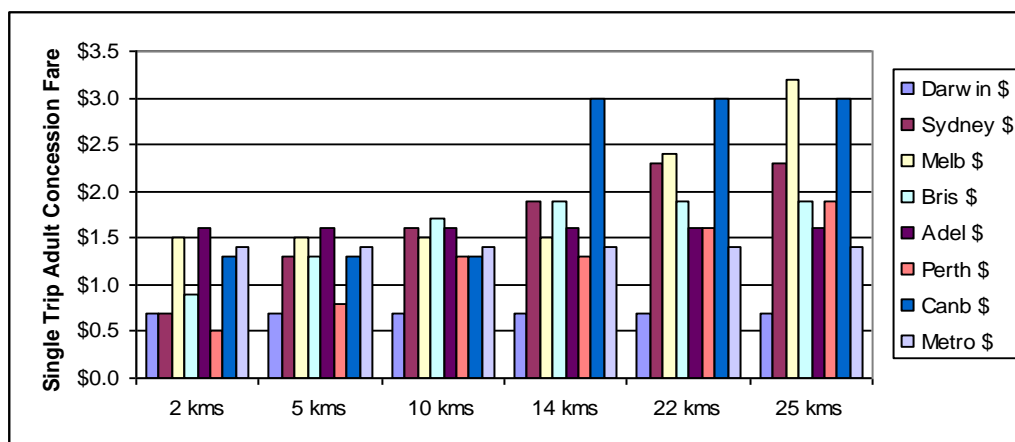


Table 5.7 and Figure 5.2 suggest that concession travellers on Metro services pay more than most states other than Adelaide and Melbourne for trips of up to 10 km. For longer distances, the Metro concession fare is cheaper than most of the other states. The table also demonstrates that in some cities such as Brisbane, Adelaide and Sydney the concession fares

are basically half of the full adult fares. Other states set their concession fare as a percentage of adult fare whilst the fares in both Tasmania and Darwin are a flat rate across all distances.

The Table 5.8 shows concession fares of Metro and private operators in Tasmania.

Table 5.8 Concession fares Metro Versus Private Operators

Operator	Journey	Distance Kilometres	Fare	Differential %
Metro	Hobart to Brighton	26	1.40	
Private Operator	Hobart to Pontville	27	2.30	64
Metro	Burnie to Ulverstone	27	1.40	
Private Operator	Burnie to Ulverstone	27	2.70	93
Metro	Hobart to Cremorne	24	1.4	
Private Operator	Hobart to Midway Point	22	1.95	39

Source: Survey of Tasmanian private bus operators.

Table 5.8 clearly demonstrates that even though there is a concession discount of up to 50 per cent offered on the fares charged by private operators, the private operator fares are still clearly well above those charged by Metro with the closest being 39 per cent above.

5.3.2 Concession fares comparisons 'Day Tripper'

Metro notes in its submission that over half of the adult concession boardings for 2001-02 were on 'day-tripper' tickets. Table 5.9 below compares Metro's concession 'day-tripper' fare to similar ticket types in other capital cities.

Table 5.9 Concession 'day tripper' ticket fares.

City	Off-peak \$	Any Time \$	Comment
Adelaide		2.90	
Perth		3.00	All day except before 8:30am in zones 5-8
Brisbane	2.30	4.20	
Melbourne		2.70; 4.30	Zone1; Zones 1&2
Canberra	1.30	3.00	Off peak ticket is only available to pensioners.
Hobart	2.20	2.30	Any time ticket is only available to senior card holders

Source: Transport operators' websites & Metro Tasmania.

The comparison shows that Metro offers a cheaper concession 'day tripper' ticket than all other capital cities with the exception of the off peak ticket available to pensioners in Canberra. This would help offset the relative expense of Metro's single concession ticket over short distances.

5.3.3 Social Impact of Concession Fare Increases

Metro submits that the group most likely to be affected by fare increases are adult concession passengers who, due to lower or fixed incomes, are more responsive to increases in fares. Similarly, the Department of Health and Human Services submits that:

Any consideration for an increase in fares and or any method by which fares are determined should always take [into] account the capacity of users to pay.¹⁰⁵

5.3.4 Section or Distance Based Fares versus Flat rate (set as a per cent of full adult fare)

The Commission has given some consideration to the possibility of applying a concession fares structure similar to that of other states where a concession fare is calculated as a percentage of the full adult fare. This would mean that the Tasmanian concession fares would revert to a section based fare as opposed to the current fixed fare across all distances. The Commission feels that a fares policy of this nature would significantly disadvantage concession travellers from the outer suburbs. Government housing policies often dictate where a person in need of housing assistance shall live (frequently outer suburbs). Hence, the housing assistance recipient has limited choices. Therefore a section-based fare would have the potential to disadvantage those concession passengers who travel longer distances through no choice of their own. In its submission, the Department of Health and Human Services makes the following observations in relation to this topic:¹⁰⁶

Under current arrangements, concession card holders can travel from Bridgewater to the Hobart CBD for a maximum single fare of \$1.40, or alternatively, can travel to the CBD and return on an adult concession day trip ticket for \$2.20. Whilst it is not entirely clear how the flat concession fare of \$1.40 was originally derived, changes to the method in which fares are calculated (such as the suggestion that Metro introduce a flat concession fare based on 50% of the full adult fare) may, in fact, lead to fare increases for those living in outer suburbs.

Potential disadvantage

Under the current fare structure, a concession cardholder can make a single trip from Bridgewater to the city for \$1.40. Under a 50% concession arrangement, that same trip could conceivably cost \$1.60 if the current section based fares were strictly adhered to and the maximum fare based on 11 or more sections was applied. That would equate to a 14% increase in fares for concession cardholders in those areas. Whilst an increase of that amount may not be regarded as particularly significant for those in paid employment, the increase could be regarded as substantial for families who are totally reliant upon Centrelink benefits as their sole source of income.¹⁰⁷

The Commission notes that there is currently an issue with short concession trips in that there is no price differential between concession and full adult fares for trips over 1-2

¹⁰⁵ Submission, Department of Health and Human Services.

¹⁰⁶ Submission, Department of Health and Human Services, p2.

¹⁰⁷ Submission, Department of Health and Human Services, p2.

sections. This suggests that those concession passengers travelling over short distances are disadvantaged by comparison with those taking short trips in many other capital cities.

5.3.5 Commission's Observations and Proposal regarding Adult Concession Fares

It appears that Metro fares are currently being used as a means of income support. It is not a very fair or efficient means of delivery of income support, as it is only available to those who have access to Metro services (ie live within the Metro catchment area). Pensioners living outside the Metro catchment do not get this benefit. Some of the private operators outside Metro's catchment offer a concession fare that is discounted by up to 50 per cent of the full adult fare. However, as shown in Table 5.8, the private operator fares are still much higher than Metro fares.

It may be argued that since pensioners and health care cardholders are entitled to a concession on motor vehicle registration and MAIB premium, a Metro concession provides comparable assistance for those without access to a private motor vehicle.¹⁰⁸

Due to the reasons discussed in Section 5.1.11, the Commission proposes that Metro and the Government retain the flat rate concession fare as opposed to reverting to a section based fare.

Metro concession fares were, in 2000, comparable with the average of those in other capital cities for travel up to about 10 km, but analysis this year has found that the Metro concession rate at \$1.40 is now above the average of the other capital cities. The Commission therefore proposes that single trip concession fares be held at \$1.40 for the next twelve months and, after that, be adjusted in proportion to changes in Metro costs along with the adult fares.

The Commission considers that a discount to encourage concession off-peak travel is warranted. However, to bring the concession 'day-tripper' ticket closer to the fares of private operators and the fares charged in other capital cities, the Commission proposes that the concession off-peak day tripper ticket could be increased to \$2.50 and the Seniors 'All Day Multi Trip' ticket be increased to \$2.60 as below.

Table 5.10: Proposed adult concession 'day-tripper' fares.

Category	Current Fares\$	Single Proposed Maximum Fares\$
Adult Concession		
Off-peak 'Day Tripper'	2.20	2.50
Seniors All Day Multi Trip	2.30	2.60

This proposal would maintain the off-peak travel discount, as two single trips would cost \$2.80.

A schedule of the recent fare movements along with the proposed changes is included in this report as Appendix G.

¹⁰⁸ The Commission suspects that Metro services are probably used in addition to private vehicle by many concession travellers.

5.3.5.1 *Estimated Revenue impact*¹⁰⁹

The estimated impact of the Commission's proposals relating to adult concession fares would be a 1-2 per cent increase in revenue received by Metro from concession fares. This would equate to less than a 1 per cent increase in total fare revenue. The estimated impact assumes that:

- the Commission's proposals above are accepted; and
- Metro's price elasticity for adult concession passengers is -0.6 to -0.75.

5.4 Child/Student Concession Fares

In the previous Metro investigation, the Commission noted that there was a marked anomaly in fares charged to Metro student travellers and students travelling with private operators.¹¹⁰ These anomalies still exist today as the child/student fares have not changed since the previous investigation.

The key issue is the lack of consistency between the fares paid by students on Metro services and those paid by students travelling with private bus operators, whether on school bus contract services or as concession travellers on route services.

5.4.1 Student Fares — Metro and Private Operators

5.4.1.1 *Contract Services*

The Government, through DIER, contracts directly with private bus operators for the provision of free student-only services to schools. These services are generally provided in areas where there is no publicly available route service to the particular school, although in some cases contract bus services do provide transport to schools which are also served by public or private route services. Some of these contract services were initially established to provide transport to students living in outlying suburbs who attend centralised Senior Secondary Colleges. The existence of contract services (and free travel) has however resulted in their use by a range of other students to the extent that in some cases the original group targeted for assistance is now a minority user of the service.¹¹¹

5.4.1.2 *Metro and Private Route Services*

The Government provides subsidies through public (Metro) and private sector bus operators to students for travel on ordinary route services or special student-only services to enable students to travel at a fare below the commercial fare. The subsidy represents the difference between the reduced fare and the relevant commercial full fare. The level of subsidy provided or, alternatively, the fare required from a student varies depending on whether the student is travelling on a private service or a Metro service and where the service is operated.

¹⁰⁹ Estimated tickets sold 2001/02, Metro Submission, p48.

¹¹⁰ *Investigation of Metro Pricing Policies – Final Report 2000*, p73.

¹¹¹ *Investigation of Metro Pricing Policies – Final Report 2000*, p74

The level of student fares has not changed since the 2000 investigation and is as follows:

- for students travelling on a private route service which is in an area not serviced by Metro, a fare of 30 cents per trip;
- for students travelling on a private route service which is in an area serviced by Metro, a fare of \$0.70 per trip; and
- for students travelling on Metro services, the Metro rate — \$1.20 for a trip, or \$0.96 per trip for travel on a '10-trip' ticket.

For students travelling from a rural area and transferring from a fare-paying private service (where the student fare is 30 cents) to a Metro service, operators are able to claim the difference from DIER, ie the difference between the 30 cents and the Metro fare of 96 cents.

Students travelling from rural areas on a private fare-paying bus (fare of 30 cents) who transfer to a private fare-paying bus (where the student fare would normally be 70 cents in urban areas) are given a free pass to cover the transfer to the second leg of their journey.

It is worth noting that the student fares policy of MerseyLink, which is one of the State's largest private operators, is the same as that for Metro.

5.4.1.3 Other Free Travel

In addition to the provision of free travel on contract services, a Free Transport Pass issued by DIER entitles certain classes of students to travel free on Metro and private route services. Free travel is available for:

- children of a family holding a Commonwealth Health Benefits Card; and
- the third and subsequent children from any family.

5.4.2 Interstate Comparison of Student Fares

In most of the other capital cities, the policy in regard to student concessions is that students pay the same rates as adult concession passengers. In South Australia however, students travelling on urban public transport pay a flat \$1.20 fare for a single trip ticket. In Melbourne there is a slightly different fare structure offered to students but this involves the purchase of a six monthly or one yearly pass, otherwise the fare structure is the same as for adult concession passengers.

Hence the interstate comparison of student fares is essentially the same as that for concessions except that the student fare is \$1.20.

5.4.3 Views raised in Submissions

MerseyLink makes the following observations in its submission in relation to student concession fares¹¹²:

¹¹² Submission from MerseyLink.

The current position in relation to fares on public passenger services is ludicrous.

The position is one of total chaos as students living in the same street travelling to different schools can be carried free, pay a 60¹¹³ cent fare or pay a \$1.20 fare.

The Government would be better advised to revert to the old system of aligning private fare paying services with Metro fares. Alternatively the Government could define urban areas and rural areas and have an urban fare the same as the Metro fare and a nominal rural fare.

The Department of Education also makes some comments in its submission in relation to student fares:¹¹⁴

Students travelling on Metro services pay a fare of 96 cents for a ten-ride ticket or \$1.20 for a single fare. This is significantly more than the 70 cents payable on a route service operating wholly within an urban area, or 30 cents on a route service commencing in a rural, and finishing in a rural or urban area.

These issues, particularly if Metro fares were to increase without a corresponding adjustment to other concession fares payable by students, may create further equity issues for DIER to address.

The Tasmanian Council of State School Parents and Friends Association Inc states its policy on student transport as follows:¹¹⁵

The Council believes the Government should provide free transport to all students attending the nearest or designated Government school of appropriate level and that the safety of students in transit is of the utmost importance.

A large proportion of students travelling on Metro Buses have to travel considerable distances, sometimes with the need to travel on two or more buses. This results in considerable expense being incurred by families for whom concessions are not available.

Country students however, are able to travel free of charge. This raises an equity issue with the current policy possibly being discriminatory based on socio-economic status and the availability of services.

The Council requests that this review calls on the government to provide free transport to all students attending their nearest or designated government school.

DIER also comments on student fares in its submission:¹¹⁶

DIER considers that there would be merit in investigating the justification for a child fare set at 50% of the full adult fare, for children who are not travelling to and from school and who are not eligible for a free pass.

¹¹³ This would actually be a 70 cent fare.

¹¹⁴ Department of Education Submission, p3.

¹¹⁵ Submission from the Tasmanian Council of State School Parents and Friends Associations Inc.

¹¹⁶ DIER Submission, p7.

DIER also agrees that there is need to consider how anomalies in student and concession fares might be addressed and how eligibility for concession passes is determined vis a vis other jurisdictions. However, DIER believes Metro's proposals are not fully presented and has some difficulty in determining whether Metro is proposing distance-related fares for concession and student passengers, set at 50% of the full adult fare. If this is the case, it is difficult to understand Metro's claim on page 53 that the adoption of a distance-based, 50% concession fare would promote achievement of shareholder expectations in regard to its main clients.

DIER believes there is merit in investigating the strategies to achieve greater equity into user contribution to fares across urban and non urban areas, but believes that any changes would need to carefully consider the impact on the main client groups and any funding implications for Government.

Metro notes the anomalies that exist with the current student fares on page 10 of its submission.

TassieLink states in its submission that:

‘the student fare regime should be consistent across all bus service operators’.¹¹⁷

5.4.4 The Commission's Views in Regard to Child/Student Fares

The Commission feels that the apparent anomalies in child/student fares are a consequence of past changes in the Government's education policy. An example of this is that the closure of significant numbers of country schools led to an increase in the number of students travelling. The fares policies was modified to compensate for the loss of local schooling, to ensure no additional cost to the individual student.

The Commission also notes that most primary school children and secondary school children within the Metro catchment would have access to a local school without public transport. However, a significant proportion chose private schools or public schools other than the local school. It is matter of Education policy whether travel to such schools should be subsidised.

Given that Metro student fares are above student fares for any other operator, the Commission considers that any changes in fares should be limited to the proportional change in Metro costs which is escalated in line with movements of the Metro index, until such time as the Government rationalises student fares in accordance with its policies in relation to access to education.

¹¹⁷ Submission from TassieLink, p5.

6 CHAPTER 6 – COMMUNITY SERVICE ACTIVITY AGREEMENT REVIEW

6.1 Introduction

The Commission is required by the Terms of Reference to consider the effectiveness of the current arrangements between Metro and Government (including incentive mechanisms) for purchasing services against the Expectations Statement. The Expectations Statement states that the Government, through its Shareholder Ministers, expects that Metro will:¹¹⁸

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
 - students travelling to and from school; and
 - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

In addition, the Commission is to assess the role of the CSA agreement in achieving these outcomes. After having formed judgements as to how these arrangements have worked to date, the Commission is requested to identify suitable measures for both efficiency and effectiveness.

Any measures developed for use should be capable of incorporation into three processes:

- future CSA agreements to maintain a focus on the continuing efficiency and effectiveness of service provision;
- reporting obligations to shareholders; and
- inclusion into the entity's annual report.

The effectiveness of Metro's service delivery against the objectives as stated in the Expectations Statement and the efficiency of Metro's operation and services are assessed in Chapter 3 and Chapter 4 respectively.

This Chapter will assess the role of the current CSA agreement in achieving the outcomes expected by the Government. The Commission will also identify suitable measures for both efficiency and effectiveness.

¹¹⁸ See Appendix A – Terms of Reference.

6.2 Background

At the completion of the Metro Investigation in 1997, the Commission commented on the need for articulation of Government's public transport policy objectives and review of Metro services.¹¹⁹

The Metro Investigation conducted in 2000 focussed principally on pricing issues. However, it was noted that the Commission had examined the efficiency of Metro services but that there had been little response from Government or Metro to systematically examine the effectiveness of current services in meeting community transport needs. The Commission in its report described Metro's performance largely in financial terms but provided some benchmark measures for service standards.

The Commission noted that a long term performance based contract was to be developed, but pointed out in its draft 2000 report that the reassessment of services was essential before long term commitments were made to purchase essentially the same services. The Commission suggested a framework for specification of service needs which required some flexibility in approach, with parameters such as:¹²⁰

- Frequency of bus service: varying between peak, off-peak, evening and weekend periods;
- Standard of service: including minimum standards for space, provision for baggage etc;
- Distance between stops: depending on location, for example, CBD, close urban etc;
- Distance between bus routes and residential dwellings: for example, a specified maximum distance may be appropriate, taking account of age and other demographic, in specified areas;
- Availability of services: for example, on-demand or time-tabled; and
- Special requirements: for example, for elderly, disabled or school children.

The Commission noted that:¹²¹

Clearly the starting point for such an analysis is a thorough understanding by both parties of the costs and patronage for groups of services, and documentation of current standards. Revisions to these standards could then be informed by discussion and negotiation of options and agreement to trial variations in the way services are delivered. Both parties must be prepared to take some risks. Some proposals may be successful. Others may take time to win community acceptance and patronage growth. It would also be prudent to recognise the need for periodic review in the light of community response and emerging trends.

¹¹⁹ Metro Investigation - Final Report 1997, pp 6-7.

¹²⁰ Metro Investigation - Final Report 2000, p9.

¹²¹ Metro Investigation - Final Report 2000, p9.

6.3 Current Metro CSA Agreement

Metro receives about 70 per cent of its revenues from CSA payments, 25 per cent from fare-box and 5 per cent from other non-fares sources. Metro's current CSA agreement is for a period of three years and commenced on 1 July 2001. Under the CSA agreement, Metro is able to undertake charter work or other regular route service under the same regulatory framework as other bus operators. Besides charter work, Metro receives revenues from other sources such as advertising and investment income.

The following is an outline of Metro's CSA agreement.¹²²

Under the CSA agreement, Metro is required to provide a set of services specified in Schedule 1 of the agreement, to a 'high standard of proficiency'. The services are to be provided in three service areas, Hobart, Launceston Burnie and Ulverstone.¹²³ The service areas themselves are not specifically defined in the CSA agreement other than through specification of the service routes and timetables.

The standard of service provision, including vehicle standards, is specified in general terms in Schedules 2 and 4, but without reference to specific quantifiable standards (such as average fleet age, or maximum vehicle ages). Schedule 2 also clarifies Metro's responsibilities with regard to such facilities as depots, interchanges and bus stops.

The payments provided to Metro in return for these services are separately identified for the three service areas and are to be adjusted quarterly for movements in the Metro Index, as well as for other reasons including:

- changes in the services;
- changes in Government policies; and
- decisions by Government not to increase fares in line with the Metro Index (due to the impact of such decisions on Metro's revenue streams).

The adjustments to the CSA payments for these additional reasons are not determined by any set formulae, but rather are "as agreed by the parties".

In relation to service variations a two-tier approach has been adopted. Minor changes to the approved timetables are the responsibility of Metro provided that the overall 'in-service kilometres' delivered in the three service areas is maintained within reasonably tight limits of levels specified in Schedule 1 of the agreement. Major changes (changes which are not minor changes) can be initiated by either Metro or the Department.

The Department must first approve any major change before it can be implemented. The adjustment to the CSA payment for any major change is 'as agreed between the parties', there are no adjustments to the CSA payment for minor changes.

¹²² Based on Metro Submission, pp 8-9.

¹²³ Schedule 1 of the CSA agreement is effectively Metro's timetable plus a listing of "specials" provided by Metro on a regular basis. These specials include services for the Launceston and Hobart shows, international cricket matches, etc.

The maximum fares that Metro may charge are specified in Schedule 3 together with the classifications that are to be adopted for discount fares for students, children and concession travellers. Changes to any Metro fares can only be implemented via an amendment to Schedule 3 of the CSA agreement.¹²⁴

There are also requirements established for Metro to maintain records of certain information and to report regularly to the Department on a range of matters. In addition, Metro provides the Department of Treasury and Finance with a range of information every 6 months as part of the reporting requirements of State-owned companies. The CSA agreement does not contain any clear statement about additional requirements of Metro such as Metro being responsible for operational planning and ensuring that services are adjusted regularly to meet the changing needs of the communities served. However, clause 8.4 permits Metro to undertake this role without seeking the prior approval of DIER, provided it does so within certain constraints.

Metro states that initial approaches for the CSA agreement were budget driven:¹²⁵

The desire for precision over budgetary allocations has been a factor in stifling the use of the CSA agreement as a mechanism for more clearly defining the outcomes Government wants and then developing incentive mechanisms to encourage the delivery of those outcomes.

Metro considers that the opportunity has been lost to redefine payments on the basis of commercial operation requiring a return on equity.¹²⁶

Metro states that the intent of the CSA agreement was that the real value of Metro's revenues would be adjusted in line with movements in the Metro Index. Metro notes that in effect, the same basic policy applies to private sector fare-paying route services where the real value of fares (and fare top-ups) is maintained by indexation, whilst the operators gain the benefits or accept the losses associated with changes in patronage levels.¹²⁷ Metro asserts that the CSA payments are not adjusted for any decline in fares revenues due to decreases in patronage because the indexation is applied to what Metro received previously.¹²⁸

Metro believes that the break-even funding adopted in the current CSA also disguises the true commercial costs of Metro operating the services. Metro notes that it has been informed by the Government as shareholder that there is no expectation that Metro provide a return.¹²⁹

Metro submits that the CSA agreement needs to be a sound commercial contract which:¹³⁰

¹²⁴ Even changes to adult fares in line with the *Government Prices Oversight (Metro Bus Fares) Order* can only be implemented through a change to the CSA agreement.

¹²⁵ Metro Submission, p93.

¹²⁶ Metro Submission, p93.

¹²⁷ Metro Submission, p8.

¹²⁸ Metro Submission, p42.

¹²⁹ This is also stated in DIER's submission saying that Metro is not funded to achieve a commercial profit.

- specifies what needs to be delivered, in what manner and at what price;
- clarifies the roles of both parties in service delivery, detailed planning and decision making;
- facilitates appropriate reporting and auditing to enable the purchaser to be satisfied that the requirements of the service contract have been met, whilst avoiding the imposition of excessive and unreasonable administrative controls; and
- establishes the basic rules about handling changing circumstances.

Metro states that the CSA agreement also has a potential role to provide incentives to encourage intended outcomes and disincentives to discourage undesirable outcomes without intervention actions by the Department.¹³¹ Metro considers that, besides retaining fare-box revenue, there are no other incentive mechanisms built into the agreement to achieve specified outcomes.¹³²

6.4 Principles for Funding Model

When assessing a proposed funding model for ACTION (which provides Metro type services in Canberra and is under a similar regulatory and funding regime as Metro), the ACT Commission for Audit noted that, in principle, there are two models that may be used as a basis for funding:¹³³

- Contract for Network Services (Deficit Funding Model); and
- Community Service Obligation Based Funding Model.

As seen in Table 6.1, Metro's CSA agreement is based on the Deficit Funding Model. However, because of the indexation based CSA payments, it is Metro rather than the Government that bears the patronage risk.

Table 6.1 below highlights the key characteristics of these two models.¹³⁴ As seen in Table 6.1, Metro's CSA agreement is based on the Deficit Funding Model. However, because of the indexation based CSA payments, it is Metro rather than the Government that bears the patronage risk.

Table 6.1 Comparison of funding models.

Contract for Network Services (Deficit Funding)	CSO Based Funding
<ul style="list-style-type: none"> ▪ Government contracts with the operator to provide network services. ▪ Government defines network which is to be 	<ul style="list-style-type: none"> ▪ Government sets minimum service levels. ▪ Operator makes commercial decisions on routes and

¹³⁰ Metro Submission, p92.

¹³¹ Metro Submission, p92.

¹³² Metro Submission, p9.

¹³³ The Commission of Audit, *Report (No.2) on the State of the Territory's Finances – ACT Forests, ACTION and Australian International Hotel School*, December 2002, p112.

¹³⁴ *ibid.*

Contract for Network Services (Deficit Funding)	CSO Based Funding
<p>contracted, including scheduling etc.</p> <ul style="list-style-type: none"> ▪ Payments for total service costs net of fare box revenue. ▪ Government bears the risk of decrease in patronage but benefits from increase in patronage through a reduced contract payment. 	<p>services to operate.</p> <ul style="list-style-type: none"> ▪ Regulator sets commercial fares. ▪ CSO payments are made where the Government requires the operator to: <ul style="list-style-type: none"> - charge less than commercial fares; or - provide concessions to a target group; or - operate services which could not be operated on a commercial basis.

The ACT Commission of Audit noted that an ideal funding model should, in principle: ¹³⁵

- delineate respective roles and responsibilities of the purchaser and operator;
- provide incentives for the operator to increase patronage and decrease costs;
- establish appropriate risk sharing arrangements;
- reflect real cost to Government of its social policy initiatives;
- provide for a fair basis for any changes to service levels, and the network;
- provide a framework for setting targets on efficiency, and particularly, the effectiveness of services;
- provide a framework for assessment of appropriateness of service levels; and
- provide flexibility in adjusting service levels to address changes in demand and costs.

The principles expressed by the ACT Commission of Audit provide a valuable guide for assessing Metro's current CSA agreement and constructing future CSA agreements.

6.4.1 Assessment of Metro Current CSA Agreement

Delineating respective roles and responsibilities

The CSA agreement prescribes specific routes and schedules for which Metro must provide a set of services as is the case normally under the Deficit Funding Model.

Although it is not part of the CSA agreement, Metro is also expected to fulfil the objectives of the Expectations Statement. It is generally agreed between DIER and Metro that the effectiveness of Metro's services should be measured against the Expectations Statement.¹³⁶ Within this context, Metro is therefore also expected to make decisions on routes and services to meet the objectives in the Expectations Statement.

However, the respective roles of the contracting parties in the detailed planning of service delivery and decision making in implementing the Expectations Statement are not clear from

¹³⁵ *ibid.*

¹³⁶ DIER Submission, p1 and Metro Submission, p66.

the CSA agreement. This in some way has led to a disagreement between Metro and DIER as to who is responsible for operational planning for service delivery under the agreement. For example, Metro states that changes to Metro services largely occur by its accepting responsibility for operational planning and responding to events in the community at large.¹³⁷ Yet DIER is of the view that operational planning at this level should be Metro's responsibility.¹³⁸ However, DIER accepts that the current policy framework does not provide Metro with sufficiently clear guidelines with which to identify the relative priority of individual services.¹³⁹

The Commission sees the need for delineating respective roles and responsibilities in any future CSA agreement. Further, it is appropriate that the effectiveness of the policy underpinning the CSA agreement is monitored. As previously indicated, the Commission considers that it is important for the Government to articulate its objectives. By inference, it appears that the Government objectives are, through Metro, to provide services as set out in the Expectations Statement but subject to a fixed level of funding. There are no indications of the value that the Government places on the provision of these services, or an acknowledgement by Government of the cost per patron. If the objectives were clearly articulated, suitable measures (such as the number of peak passengers and evening passengers, and the respective subsidy for the two categories of passengers) could be developed and used to assess the effectiveness of both the Metro services and the CSA agreement to deliver Government objectives.

Incentives for the operator to increase patronage and decrease costs

The CSA agreement allows Metro to retain fare-box revenue, which was intended to provide financial incentives for Metro to pursue opportunities for building patronage.¹⁴⁰

Metro is of the view that retaining fare-box revenues per se do not create sufficient incentives for achieving specific outcomes. Metro suggests that incentives such as 'per passenger' payments may encourage Metro to actively seek out specific markets.¹⁴¹ DIER, on the other hand, submits that 'per passenger' subsidies are not warranted in the absence of transport externalities such as traffic congestion, high level of noise and pollution.¹⁴²

The Commission observes that the current regime encourages Metro to adjust services within current service limits, to lower its costs, provided that there is no loss of patronage.¹⁴³ It does not encourage Metro to go further to promote Government's transport objectives. In effect,

¹³⁷ Metro Submission, p79.

¹³⁸ DIER Submission, p3.

¹³⁹ DIER Submission, p5.

¹⁴⁰ DIER Submission, p3.

¹⁴¹ Metro Submission, p97.

¹⁴² DIER Submission, p6.

¹⁴³ In its submission, UITP expresses a surprise that the Shareholder Expectations statement does not have a focus to 'expand patronage'.

the primary objective of the current CSA agreement is to maintain the current level of funding rather than to promote use of public transport. Given the current high level of subsidy, this may be appropriate.

However, there could be better integration of the CSA agreement and the shareholder expectations. Government transport objectives would be better promoted by other funding structures such as top-up funding.¹⁴⁴ For example, Metro would not only be allowed to retain fare box revenue, but would also be funded by a premium for additional patronage. Metro would then seek out additional routes at its own cost if the additional revenue (fares plus top-ups) is greater than the marginal cost of the additional services. Conversely, Metro would carry a higher level of patronage risk.

The top-up premium should vary according to the ‘value’ that Government may place on a service. As a benchmark, it could be noted that in 2000 the cost of providing Hobart evening services was almost \$5 per passenger more than the fare-box revenue.

If the CSA agreement was converted to a top-up regime, there would be no immediate impact but Metro would have very strong incentives to promote Government objectives.

It would not be necessary for funding to be based solely on fares top-ups. A middle ground would see the CSA agreement providing one half of Metro’s CSA revenues through a cost-based element and the remainder linked to patronage. This would provide a much stronger incentive for Metro to further Government objectives to promote use of public transport by targeted groups. If the top-ups were related to particular services or classes of patrons, for example, to evening services or concession travellers services, the Government would have better targeted incentives for Metro to design its services to meet Government objectives.

The Commission recognises that this would bring some volatility in DIER funding needs, and suggests that the CSA agreement may be bounded by a cap and collar to provide financial certainty for both parties.

The Commission also recognises that incorporating a reward and penalty system into a contract is a common practice in many contractual relationships. However, it may not be appropriate to build into a CSA agreement a reward and penalty system within a restrictive payment regime as currently exists in Metro’s case.

On the matter of bonus, the Commission sees the merit of DIER’s submission that for a contract that is structured on the basis of 100 per cent compliance, it is unreasonable to pay a bonus for the required level of performance.

As for penalty, Metro submits that a key factor for rejecting the introduction of a penalty system when setting up the 2000-01 CSA agreement was that:¹⁴⁵

...Metro is funded on a break-even basis and the CSA payment had not been calculated to contain provisions to pay penalty payments for realistic performance levels. Metro would

¹⁴⁴ Issues concerning the merit of top-up funding have been discussed in the submissions from DIER, Metro, MerseyLink, TassieLink, and REDLINE.

¹⁴⁵ Metro Submission, p94.

require funding to be increased to the extent of penalty payments associated with acceptable levels of performance, and would also need the ability to pay penalty payments above this level through reduced profit levels should performance drop below acceptable standards...

However, the Commission notes that besides financial incentives, other incentives may come from, for example, the public perception of Metro being an efficient and effective public transport operator seeking to consistently improve its performance. Public recognition of Metro as a good corporate citizen also provides incentive for Metro to implement Government's social objectives in meeting the travel needs of the targeted client groups as identified in the Expectations Statement.

On the matter of transparency, the Commission considers that in addition to reporting in annual reports, periodic publication of performance against agreed measures is invaluable. Community pressure and expectations drive performance in terms of perceptions of efficiency and effectiveness. This should also facilitate improvements in transparency and accountability of the Board of Metro. Victoria provides an example of periodic publication of service performance against agreed performance indicators.¹⁴⁶

Appropriate risk sharing arrangements

There is no established patronage risk sharing arrangement in the CSA agreement although under the Deficit Funding Model, the purchaser normally bears all fare-box revenue risk.

Because of the indexation method for calculating CSA payments, it is Metro rather than the Government that carries the patronage revenue risks.

The Commission recognises that under the normal Deficit Funding Model, there are no incentives for the operator to seek patronage growth as the purchaser will pay the operator regardless of the fluctuations of patronage.

The Commission also appreciates that the appropriate risk sharing arrangement needs to be worked out between the Government and Metro in the course of future contract negotiation. It is however reasonable for the two parties to share the patronage risk given that Metro is contractually required to service the specific routes and schedules nominated by the Government. The proposed top-up funding arrangement discussed earlier would provide the appropriate risk sharing framework within the context of the Government public transport objectives.

Reflecting real cost to Government of its social policy initiatives

The CSA agreement is based on break-even funding and hence it does not allow for a return on capital.¹⁴⁷

¹⁴⁶ Performance against agreed performance indicators is published quarterly in *Track Record* and posted on the relevant Department's website.

¹⁴⁷ Metro has also been advised by the Government that there is no expectation that Metro provide a return. Metro Submission, p44.

Metro states that current break-even funding also limits its ability to generate revenue required to properly invest in capital replacement or invest in business expansion.¹⁴⁸ Metro considers that ‘the current financial arrangements fail to recognise the significant investment the Government has in Metro and also disguises the true commercial costs of Metro operating the business.’¹⁴⁹

On the matter of return on capital, DIER states that:

...if a "commercial return on equity" is accepted as a cost that must be met up front by Government, then the Government would be obliged to increase the level of CSA funding by a comparable amount (estimated at over \$2 million for 2003/04).

Although it is accepted that commercial businesses competing in a market need to achieve sustainable returns on capital and equity in order to demonstrate their commerciality and provide economic justification for their activities and investments, the Department of Infrastructure, Energy and Resources (DIER) believes it is unnecessary for the Government to provide an automatic return on capital to Metro so that it can be declared as a dividend later on. Thus, while DIER agrees that there is a need to calculate and take into consideration a commercial rate of return for the purposes of accurate benchmarking, it believes that this calculation can be made without an actual transfer of funds occurring.

Whilst dividends and other financial ratios may be used, in part, to judge the performance of other Government businesses, they do not provide a useful range of performance indicators in respect to Metro’s circumstance. The measurement of Metro’s performance in respect of shareholder expectations is better served by performance indicators that focus on Metro’s service delivery and its efficiency levels compared with other providers of public transport in metropolitan areas.

The Commission notes the two opposing views between DIER and Metro on this matter. Ultimately it is the Government’s decision as to whether the CSA funding of Metro’s services should include a return on capital. However, for the purpose of the CSA agreement review, allocating a commercial rate of return on capital and the proposed top-up funding arrangement would better reflect the real cost to Government of its social policy initiatives. Allowing a commercial rate of return on capital need not impact on budget as the additional funding could be recovered through the dividend policy. This would also provide improvements in the transparency and accountability of the Metro Board.

Provided a fair basis for changes to service levels and the network

Under the current CSA agreement, payments are adjusted for, among others, changes of services. The adjustments are not determined by any set formula but ‘as agreed by the parties’. The Commission considers that the proposed top-up funding arrangement would provide incentives for Metro to increase the level of patronage for the targeted passenger groups and the fair basis for changes of services. The consequent adjustments in CSA

¹⁴⁸ Metro Submission, p44.

¹⁴⁹ Metro Submission, p44.

payments would reflect the ‘value’ that the Government places on the proposed changes in the context of its social policy initiatives.

Providing a framework for setting targets on the efficiency and the effectiveness of services

There are no specific indicators or targets in the CSA agreement to gauge the efficiency or effectiveness of Metro’s services apart from requiring in general terms the standard of Metro’s service provision to be a ‘high standard of proficiency’.

The assessment of Metro’s efficiency is generally left to the tri-annual pricing policy investigation conducted by the Commission. Assessment of the efficiency of Metro’s services is covered in Chapter 4.

Although Metro is expected to be effective in furthering objectives of the Expectations Statement, there are no contractual obligations to do so in the CSA agreement. Metro currently uses a number of indicators to measure the effectiveness of its services (see later discussion). The assessment of the effectiveness of Metro’s services is covered in Chapter 3.

In the second part of this Chapter, the Commission will identify and discuss various efficiency and effectiveness indicators that may be incorporated in future CSA agreements.

Providing a framework for the assessment of appropriateness of service levels

The CSA agreement provides no framework for the assessment of appropriateness of service levels except for specifying routes and schedules that must be serviced by Metro in the three service areas. Given the structure of the CSA agreement, the assessment of service levels appears to rest with DIER as is consistent with the Deficit Funding Model.

However, DIER, believes that it is Metro’s responsibility at the operational level in service planning, implying that the responsibility of assessing the service levels also falls to Metro.¹⁵⁰ As mentioned earlier, Metro is also required to give effect to the objectives of the Expectations Statement, although it is not part of the contractual obligations.

The Commission considers that if, under the CSA, Metro is expected to assess the appropriateness of service levels in achieving the Government’s social objectives, it should be provided with a clear guideline regarding what the Government intends to achieve in purchasing Metro services as well as the framework for assessment. However, if the proposed top-up funding arrangement is accepted by the parties, the quantum of top-ups offered by the Government for the particular services or classes of patrons would provide an indication to Metro of the outcomes expected by the Government.

The Commission understands that an independent study of ‘gap analysis of transport need in Hobart’ currently commissioned by DIER will:¹⁵¹

¹⁵⁰ DIER Submission, p3.

¹⁵¹ DIER Submission, p3.

...enable DIER to develop minimum standards for Metro services and a policy framework that the Government can apply when assessing proposals for changes to Metro services.

The result of the study will therefore assist DIER in developing a framework to be incorporated in future CSA agreements for assessing the appropriateness of service levels.

Providing flexibility in adjusting service levels to address changes in demand and costs

The Commission notes that there is limited flexibility in the CSA agreement for service variations to address changes in demand and costs. As outlined earlier, for minor service changes to specified timetables and routes, the responsibility rests with Metro provided the overall 'in-service kilometres' delivered in the three service areas are maintained. For major service changes, either Metro or DIER may initiate the changes but subject to DIER's approval if changes are proposed by Metro.

DIER submits that with regard to major service changes, where major groups will be affected and/or increases in CSA funding will be required, it is reasonable that DIER and the Government are consulted.¹⁵²

6.5 Efficiency and Effectiveness Measures

6.5.1 Metro Efficiency Measures

Metro has engaged the services of consultants to analyse its costs and develop the relevant efficiency performance indicators. Efficiency indicators used by the consultants include:

- bus hourly cost measured in dollar per bus hour
- bus kilometre costs measured in dollar per kilometre
- bus overhead costs measured in dollar per bus hour
- capital cost (bus and non-bus) measured in dollar per kilometre or per bus

The Commission notes that these indicators have been well established and recognised as efficiency measures and are ready to be incorporated in future CSA agreements. However, the use of 'bus kilometre' rather than 'bus service kilometre' could overstate service outputs because of 'dead running'¹⁵³ masking inefficient work practices.¹⁵⁴ Hence, 'bus service kilometre' would be a better base for measurement.

¹⁵² DIER Submission, p4.

¹⁵³ When the bus is not in service.

¹⁵⁴ Since 1993, 'per bus service kilometre' has been used as a measurement unit by the Department of Transport in Western Australia to gauge the cost performance of Transperth. (See WA Auditor-General's report – *Performance Examination, Bus Reform: Further down the Road – A follow-on examination into competition reform of Transperth bus services*. Report No. 6 June 2000.)

In addition, any changes in routes and services should be reported and taken into account when interpreting the results against these indicators to avoid concealing underlying trends.

Metro's efficiency against these indicators is discussed in detail in Chapter 4 of this Draft Report. Briefly, there have been favourable movements in terms of Metro's operating expenditure per bus kilometre. The significant improvement has enabled the Government to reduce the proportion of the Budget devoted to this element of public transport and to redirect resources to what it considers to be other priorities.

6.5.2 Metro Effectiveness Measures

In general, effectiveness measures are more difficult to judge but they could be developed against stakeholder expectations provided minimum service requirements are clearly defined.

From the Expectations Statement, Metro identifies the following three elements it considers as important for effective service delivery:

- Providing services that are well suited to meeting the travel needs of the main client groups:
 - Students travelling to and from school
 - Commuters travelling to and from main employment centres
 - General mobility for those without access to private travel means
- Focussing on customers and quality in service delivery; and
- Providing services as part of an integrated whole – linking with other bus operators and taxis where appropriate.

Metro uses two types of non-financial performance indicators:

- 'First Boardings Per Bus Kilometre' to measure its effectiveness in meeting the travel needs of the main client groups (effectiveness indicator); and
- 'Complaints Per Million First Boardings' and 'Performance Against Customer Service Charter' to assess the level and quality of customer service and service delivery (service quality indicators).

6.5.2.1 Effectiveness Indicator

The 'First Boardings Per Bus Kilometre' is used by Metro for measuring passenger demand and Metro relies mostly on a study conducted by Booz Allen Hamilton in 2000 to assess its performance against this indicator. 'First Boardings Per Bus Kilometre' is also recognised by DIER as a good indicator of Metro's output effectiveness in showing how Metro is doing in matching services to the Community's travel needs.¹⁵⁵ ACTION in Canberra also relies

¹⁵⁵ DIER Submission, p2.

primarily on 'Passenger Boardings Per Kilometre (or per 100 km)' for measuring service effectiveness.¹⁵⁶

The Commission recognises that this indicator provides a partial measure of Metro's performance. However, the use of 'Per Service Kilometre' will provide a more accurate effectiveness measure by eliminating the effect of 'dead-running'.

In the context of the Expectations Statement, the Commission is of the view that indicators should be relevant to the effectiveness in meeting the travelling needs of the main client groups. For example, over a period of time, changes in work patterns, schooling preferences and variations in population densities will mean that it is necessary to review transport routes and timetables to ensure that they continue to respond to customers' preferences.

Reporting should reflect Metro's goals in regards to each of its main client groups and their needs, and could be improved by dealing separately with scheduled route services and school services. Although disaggregated data including reports by client group and by service period are more complex, it would provide a better indication of Metro's effectiveness in meeting the Government's and the community's expectations.

6.5.2.2 Service Quality Indicators

Indicators for service performance require a much more sophisticated monitoring and feedback mechanism if they are to be incorporated into future CSA agreements. Metro currently uses the following two measures to assess its service performance:¹⁵⁷

Complaints Per Million First Boardings – this indicator measures the number of passenger complaints against the number of Metro passengers. This measure provides an indicator for the level and quality of Metro services. Previously, Metro only collected data on complaints that were substantiated through investigation. Metro now records all complaints received whether or not they have been substantiated.

Performance Against Customer Service Charter - Metro's Customer Service Charter was first developed in 1997 and underpins Metro's attainment of the Corporate Plan Goal to improve the reliability, safety and quality of services to customers.¹⁵⁸ The Customer Service Charter requires Metro to work towards the achievement of a set of standards of service.¹⁵⁹ An independent market research company has been engaged by Metro to undertake regular surveys (currently four times a year) to assess Metro's performance against these standards of service.¹⁶⁰

¹⁵⁶ The Commission of Audit, *Report (No.2) on the State of the Territory's Finances – ACT Forests, ACION and Australian International Hotel School*, December 2002, p17.

¹⁵⁷ Both Complaints Per Million First Boardings and Performance Against Customer Service Charter are also accepted by DIER as appropriate indicators for measuring Metro's service quality. DIER Submission, p3.

¹⁵⁸ Metro Submission, p69.

¹⁵⁹ Metro Submission, p69.

¹⁶⁰ Metro Submission, p69.

Although Metro recognises the importance of measuring reliability and punctuality of services, it is not able to assess on-time performance in any reliable way until the introduction of a new GPS linked ticketing system as mentioned earlier.¹⁶¹

The Commission notes that for service quality,¹⁶² the Productivity Commission measures the frequency of service cancellation and service delays. In Victoria, the following quality of service indicators are used:¹⁶³

- Punctuality and Reliability – comparing the performance of train, tram and bus services against Government-set punctuality and service delivery targets; and
- Customer Satisfaction – using surveys to measure whether operators are providing the quality of service their customers expect.

The Commission considers that Metro's current service quality measures provide a good indication of its service quality against shareholder expectations. The Commission feels that punctuality and reliability indicators should also form part of the service performance assessment criteria.

The Commission recognises that the effectiveness of the punctuality and reliability indicators may hinge on Metro's ability to introduce the new GPS ticketing system. The Commission understands from DIER's submission that it is supportive of the implementation of the new ticketing system.¹⁶⁴

Finally, the Commission considers that the level of subsidy should be transparent. This can be done by the use of appropriate indicators to show, for example, the shortfalls (Government contribution) by time period for each location serviced by Metro. Such measures would also give an indication of the effectiveness of the CSA agreement in delivering Government social objectives.

Metro's performance against its current service quality indicators is discussed in detail in Chapter 3 of the Draft Report.

6.5.3 Proposed performance indicators

The Commission is requested to identify suitable measures for both efficiency and effectiveness, which could be incorporated in:

¹⁶¹ DIER notes the importance of 'on-time performance' and 'early running' as critical issues for current passengers and potential customers.

¹⁶² In its Report to IPART - *The Incorporation of Service Quality in the Regulation of Utility Prices – A Discussion Paper*, March 2001, p46, The Allen Consulting Group lists the following common quality of service: OUTPUTS: Reliability and Passenger Satisfaction; INPUTS: Infrastructure in Safe Operating Condition, and Operator Appropriately Qualified; PROCESS: Timely Response, Customer Information System, and Appropriate Facilities for Customer Communication.

¹⁶³ *Track Record – Victoria's Train, Tram and Bus Services*, Quarterly Performance Bulletin. Department of Infrastructure. Victoria.

¹⁶⁴ DIER Submission, p3.

- future CSA agreements
- reporting obligations to shareholders
- the entity's annual report

The Commission considers that suitable indicators may include:

6.5.3.1 *Proposed Efficiency Indicators*

- bus hourly cost measured in dollar per bus hour
- bus kilometre costs measured in dollar per kilometre
- bus overhead costs measured in dollar per bus hour
- capital cost (bus and non-bus) measured in dollar per kilometre or per bus

6.5.3.2 *Proposed Effectiveness Indicators*

- high level indicator: First Boardings Per Service Kilometre (or per 100 km)
- sub-indicators such as: First Boardings Per Service Kilometre (or per 100 km) by:
 - client groups
 - time periods
- Government contribution by time period for each location

6.5.3.3 *Proposed Service Performance Indicators*

- complaints per million first boardings
- performance against existing Customer Service Charter (including punctuality and reliability)

6.6 Conclusion

The current CSA agreement is highly specific in terms of routes and timetables. It contains complex variation provisions, service standards that are essentially prescriptive and of a similar nature to any private operator, and customer service requirements that do not reflect minimum requirements but rather regulatory requirements.

The respective roles and responsibilities of the contracting parties are not clearly identified in the agreement. There is no framework in the agreement to assess the appropriateness of existing service level or specific indicators to measure the efficiency or effectiveness of Metro services.

The reporting requirements under the CSA agreement do not of themselves promote efficiency or effectiveness unless they were being used in a communication and feedback process during the course of the contract. Evidence suggests that beyond the requirement to provide periodic reports, there is not a regular process of meeting and discussion of

performance that would form a basis for assessment of efficiency and effectiveness. It will require a much more sophisticated monitoring and feedback mechanism if they are to be incorporated into future agreements.

There is insufficient financial incentive in the agreement to encourage Metro to increase its service level outside the existing Metro catchment. If adopted, the top-up funding arrangement would provide Metro a strong incentive to further the Government's objectives in meeting the travel demands of the targeted client groups.

Whilst financial rewards or penalties for service quality and effectiveness may form part of the agreement, the incorporation of such measures hinges on allowing a commercial rate of return in the agreement.

Efficiency indicators currently used by Metro have been well established and recognised and can be readily incorporated in future CSA agreements. However, there is a need for the Government to clearly articulate its objectives so that suitable effectiveness measures can be developed.

In general, a revised CSA agreement needs to be less constraining, allow for swings and roundabouts in terms of indexation mechanisms, and adjustments for route changes.

7 METRO INDEX REVIEW

7.1 Background

In the Metro Investigation conducted in 2000, the Commission developed the Metro Index (Index) as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. DIER also adopted the Index as the basis for adjusting Metro's quarterly CSA payments.

The Commission concluded in 2000 that neither the CPI nor the School Bus Index was an appropriate index for escalating the maximum revenues or fares of Metro. The Commission, in consultation with DIER and Metro, constructed the Index to better reflect Metro's cost structures but still provide incentives to achieve productivity in areas where Metro has a significant degree of control. In formulating the Index, the Commission stated that:

The choice of an index depends in part on the regulatory objectives and the key issue is to understand what incentives the chosen model or framework of regulation is providing. The guiding premise of economic regulation is to facilitate and encourage effective competition, where it is feasible, and to provide an effective substitute for competition where it is not feasible. Regulation of monopoly services should provide the same incentives as would market competition in the industry segment...

...Over the past decade, there has become an increasing awareness in Australia and elsewhere that traditional 'cost plus' regulation, employed historically for the regulation of government owned monopolies, does not provide sufficient incentives to the entities to become more efficient. That is, setting maximum revenues to be equal to the entity's budgeted or actual costs plus a margin for profit each year provides little or even perverse incentives for cost reductions. The effect over time may be the gold plating of assets and inefficient use of resources.

The alternative is to set a predetermined maximum revenue, generally based on benchmark rather than actual costs, and adjust this by some predetermined index each year over the regulatory period. However, the choice of the index is also an important factor in ensuring maximum potential incentives. The choice is principally between an industry specific index that more closely reflects movements in prices of the industry inputs and a general price index such as the CPI. The more closely the index reflects actual movements in the entity's specific costs, the less incentive there is to seek efficiencies.

Indexing revenues (or prices) by the CPI less a predetermined productivity factor can also provide additional incentive. The predetermined productivity factor can be based on economy or industry norms. Entities that can increase productivity above the pre-determined rate or 'norm' will be able to earn a rate of return greater than the pre-determined rate. Conversely, entities that cannot achieve the pre-determined productivity levels will earn rates below the pre-determined rate.

The use of a general index, such as the CPI, may however be problematic where a material segment of an entity's cost diverges significantly from the CPI. In the case of Metro, a material segment of its costs is fuel related. As demonstrated in the last 12 months, the cost of fuel is highly volatile and does not move in parallel with the CPI.

The individual sub-indices in the Index were defined in the Pricing Order and comprises the following sub-indices for Metro’s input costs:¹⁶⁵

Table 7.1: Metro Index

Cost Component	Index	Weighting %
Fuel	The latest available index number obtained by dividing the average fuel cost ¹⁶⁶ by 1.1 (to make net of GST) and then subtracting 17.798 (to make net of Commonwealth fuel rebate)	8.7
Labour	The latest available index number for the Wage Cost Index for the Transport and Storage Industry Sector, for private and public workers, Ordinary time hourly rates of pay excluding bonuses, as set out in Table 9B of Publication No. 6345.0 published by the Australian Bureau of Statistics.	60.1
Bus Capital (depreciation), Parts and Maintenance	The latest available index number set out in Subdivisions 281 and 282 (Transport equipment and parts) in Table 4: Manufacturing ANZSIC Subdivision and Group Indexes (a) in the Price Indexes of Materials Used in Manufacturing Industries published as Publication No 6411.0 by the Australian Bureau of Statistics.	20.5
Other (eg non-bus capital, other operating costs etc)	The latest available index number for the Consumer Price Index: All Groups Index Number for Hobart as set out in Table 1 of Publication No. 6401.0 published by the Australian Bureau of Statistics.	10.7
Total		100.0

As part of the Investigation, the Commission is required ‘to review the adequacy of the Metro Index in reflecting Metro’s costs and make recommendations as to the need to make modifications to the Metro Index to effectively reflect changes in Metro’s input costs for the next 3 to 5 years.’¹⁶⁷ In assessing the adequacy of the Index, the Commission will review the following matters in this Chapter:¹⁶⁸

- the categories of Metro’s input costs;
- the weightings of each category of input costs; and

¹⁶⁵ *Government Prices Oversight (Metro Bus Fares) Order 2000.*

¹⁶⁶ The average of all prices (inclusive of GST) paid by Metro to fuel suppliers for diesel fuel delivered during the period of 3 months ending on the last day of the immediately preceding month under contracts between Metro and those suppliers.

¹⁶⁷ Terms of Reference.

¹⁶⁸ The Commission has also taken into account the relevant comments about the Metro Index in the submissions received for this Investigation.

- the appropriateness of existing sub-indices.

7.2 Categories of Metro's input costs

In addition to Indec's benchmarking report,¹⁶⁹ Metro has provided the Commission with the breakdown of its input costs. After analysing these data, the Commission finds that the categories of costs used in the existing Metro Index are still appropriate.

7.3 Weightings of each category of input costs

In Chapter 4 of the Draft Report, the Commission assesses the efficiency of Metro's operation and applies various efficiency factors to Metro's costs based on the relevant benchmarks. The following table shows the weightings of each category of Metro's input costs taking into account the relevant efficiency adjustments.

The relative weightings differ depending on whether a return on capital is allowed. The issue of whether the CSA funding of Metro's services should allow a return on capital is discussed in Chapter 4 and Chapter 6 of the Draft Report.

Table 7.2: Metro input cost weightings

Cost Component	No Return on Capital Weighting %	With Return on Capital Weighting %
Fuel	8.63	8.10
Labour	62.92	59.05
Bus Capital (depreciation), Parts and Maintenance	14.03	16.82
Other (eg non-bus capital, other operating costs etc)	14.42	16.03
Total	100.0	100.0

7.4 Sub-indices for Metro's input costs

7.4.1 Fuel

The existing fuel sub-index is based on the average delivery price of fuel to Metro over the previous three months after adjusting for GST and the Federal fuel rebate¹⁷⁰. The Commission found in 2000 that there was no suitable exogenous index of diesel fuel costs and proposes the use of an index based on Metro's actual contract purchase rates.¹⁷¹

¹⁶⁹ Indec's benchmarking study is discussed in chapter 4 of this Draft Report.

¹⁷⁰ Federal Diesel and Alternative Fuel Grants.

¹⁷¹ Investigation of Metro Pricing Policies – Final Report 2001, p47.

Metro's experience shows that the sub-index has adequately reflected Metro's fuel costs in general.¹⁷² Further, given that Metro's fuel contract is awarded through a tender process and is subject to competitive pressure, the possibility of building in inefficiencies by using Metro's actual cost to adjust for movements in fuel costs is minimised.¹⁷³ Thus the existing fuel sub-index remains an appropriate indicator of Metro's fuel costs.

Metro states that the main problem with the fuel sub-index is the effects of lags and averaging such that the sub-index does not always accurately reflect Metro's current fuel costs unless fuel prices are stable.¹⁷⁴ The Commission appreciates Metro's view but notes that lags and averaging are inherent in any adjustments based on indices which, by their nature, track past events. The lags may sometimes disadvantage Metro and at other times favour Metro. In situations such as that alluded to by Metro, where it can be shown that there will be no compensatory lag in the future,¹⁷⁵ the terms in the Metro's CSA allow for events unforeseen by the contracting parties. For example, clause 4.1 of the CSA allows adjustments to the CSA payments to reflect 'changes in policies by Government which directly affect Metro's net costs of operation' (cl 4.1(b)) or 'other factors that the parties agree are appropriate' (cl 4.1(d)).

The answer to the potential problem of lags and averaging therefore lies in the design of the CSA rather than the choice of the sub-index. In negotiating and designing future CSA agreements, the contracting parties should incorporate appropriate mechanisms into the agreements to ensure that neither party will be unfairly disadvantaged by any lags and averaging inherent in indices which are based on past events.

Metro has, however, identified a practical problem in the calculation of the fuel sub-index as required by the Pricing Order. This problem has also been recognised by DIER.¹⁷⁶ The GST and Federal fuel rebate are currently fixed at ten per cent and 17.798 cents per litre (cpl) respectively in the Pricing Order. There is no mechanism in the Pricing Order to accommodate any subsequent changes in the level of GST or Federal fuel rebate. In February 2001, the Federal fuel rebate increased to 18.51 cpl. Recognising this unintended restriction in the Pricing Order, DIER and Metro agreed to calculate the Index as if the Pricing Order had been amended to reflect the increase in the Federal fuel rebate.¹⁷⁷ However, no amendment to the Pricing Order has been made to date.

The Commission sees the merits of having the GST and/or Federal fuel rebate as variable items in the fuel sub-index. This is consistent with the intent of the Pricing Order and will

¹⁷² Metro Submission, p104.

¹⁷³ Metro Submission, p104.

¹⁷⁴ Metro Submission, p104.

¹⁷⁵ Metro Submission, p105. Metro cites the example of the introduction of low sulphur fuel where the impact of the new fuel will be around 0.6 cents per litre. Metro states that this is a differential that will exist forever. There will therefore be a cost to Metro of around \$10 000 due to the lag associated with the price increase because the price will not come back down resulting in no compensatory lag in the future.

¹⁷⁶ DIER Submission.

¹⁷⁷ Metro Submission, p100.

minimise lags in the flow-through of subsequent changes of these two components of the sub-index.

Metro identifies a further practical problem concerning the compliance with the Pricing Order. The problem relates to potential technical breaches of the Pricing Order by Metro in situations where the Index declines following an increase in fares. It would be administratively impractical to adjust Metro's fares every time there is a small reduction in the Index. Metro submits that any future Pricing Order needs to be able to accommodate small downward movements in the Index without requiring fare reductions.

The Commission appreciates Metro's concern regarding this issue, however, the formulation and administration of the Pricing Order is not within the Commission's jurisdiction. The Pricing Order is made and issued by the Government following consideration of the Commission's recommendations. Any issues concerning the implementation of the Pricing Order should be brought to the attention of DIER (the responsible Department) for rectification. The Commission is however willing to assist DIER in ensuring that the Pricing Order reflects the policy decision of the Government.

7.4.1.1 Proposal

The Commission proposes that the fuel sub-index continue to be based on Metro's actual fuel cost and be amended to allow the flow-through of any future changes in the GST and/or Federal fuel rebate.

7.4.2 Labour

The existing labour sub-index uses the ABS Wage Cost Index for the Transport and Storage Industry Sector. In the Metro Investigation conducted in 2000, the Commission was of the view that it would be inappropriate to use a labour index that Metro is able to influence - for example, an index of Metro's award labour costs when Metro is a significant employer under that award, as Metro would have no incentive to control its input costs.¹⁷⁸

In its submission, Metro provides supporting data to show that the labour sub-index has not been reflecting Metro's actual labour costs. The data show that over the last 18 months, Metro's labour costs have grown at approximately twice the rate of the movements in the labour sub-index. Discussion between officers of ABS and Metro indicated that the discrepancy may be due to the fact that the ABS labour index¹⁷⁹ has not incorporated workers compensation costs, payroll tax and the recent increase in superannuation guarantee charges (from 8 per cent to 9 per cent).¹⁸⁰ While ABS intends to release a new labour cost index that will incorporate the full range of labour cost components, the new ABS labour index is unlikely to be released until the end of 2004.¹⁸¹

¹⁷⁸ Investigation of Metro Pricing Policies – Final Report 2001, p47.

¹⁷⁹ Metro labour sub-index is based on the ABS labour index.

¹⁸⁰ Metro Submission, p102.

¹⁸¹ Advice from ABS (Canberra office) to GPOC on 24 March 2003.

Metro suggests the adoption of the School Bus Index (SBI) which uses an award wage with an agreed 'on cost' mark-up.¹⁸² DIER has however indicated that the SBI is often criticised by private bus operators and is in need of an overhaul.¹⁸³ DIER is currently undertaking a review of the system of remuneration used for school bus contractors and is developing a new Bus Cost Model. This work includes, amongst others, the review of the SBI as a whole.

Another approach submitted by Metro is that used by the Victorian Department of Infrastructure to adjust urban route operator contract payments.¹⁸⁴ The Victorian approach uses the Victorian average weekly earnings (full time ordinary earnings – trend series) to provide a base labour cost before adding various overhead elements as percentages of mark-ups.¹⁸⁵ Metro notes that this approach will allow the changes in government policies to be implemented immediately to avoid the lags inherent in a broader based ABS index that is designed to incorporate these on-costs. DIER supports the Victorian approach and advocates the use of the Tasmanian labour index.

The Commission has consulted with ABS¹⁸⁶ to identify an alternative sub-index to better reflect Metro's labour costs. While a number of options have been considered, the Commission is of the view that the Victorian approach of 'base rate plus on-costs' provides the most practical alternative to the existing labour sub-index.

However, the Commission is of the view that the base rate should be based on the existing labour sub-index (which is a wage cost index) rather than the national average weekly earnings (which is an earnings index) as is used by Victoria. As the rates of Superannuation and payroll tax reflect Government policy and are not within Metro's control, these costs should be treated as pass-through items. Hence they are added as percentages to the base labour cost index as pass-through items.

The level of premium costs for workers compensation insurance is in large part within Metro's control. For example, ensuring a safe working environment will ultimately lead to lower premiums charged because of favourable claim history. Thus treating costs for workers compensation insurance as a pass-through item would remove the incentive in improving work practices and cost efficiency in this area. It is therefore appropriate to use Metro's current workers compensation insurance premium expenses or rate as a separate base rate to be indexed to the national CPI.

As Metro fuel costs have been separately indexed, the Commission has considered whether to remove the fuel component from the national CPI to avoid double counting. However, given

¹⁸² SBI contains three basic labour indices – drivers, maintenance/cleaning and administration. Metro submission, p104.

¹⁸³ DIER Submission.

¹⁸⁴ Metro Submission, p104.

¹⁸⁵ These overhead on-costs include superannuation guarantee fee, payroll tax and workers compensation.

¹⁸⁶ Meeting with ABS Director (Client and Statistical Services Branch) at Hobart office on 6 March 2003.

that the weightings for fuel in the national CPI are relatively minor¹⁸⁷, the Commission considers that no modification to the national CPI is necessary for indexation purposes.

7.4.2.1 Proposal

The Commission proposes that the labour sub-index be amended such that it comprises the following components:

Components	Indexation
Wages	Indexed to the national Wage Cost Index for the Transport and Storage Industry Sector.
Superannuation and payroll tax	Treated as pass-through items as percentages.
Workers compensation	Uses Metro's current workers compensation insurance premium expenses or rate as a base rate and indexed to the national CPI.

The weighting for the labour costs currently includes on-costs. It is therefore necessary to determine the proportions of the wages only (ie before on-costs) components for indexation purposes.

As discussed earlier, ABS intends to release a new labour cost index by end of 2004. The new index will include the relevant on-cost items such as superannuation, payroll tax and workers compensation. Following the release of the new labour cost index in 2004, the labour sub-index may then be based on the new index.

7.4.3 Vehicle Equipment and Parts

The category of vehicle equipment and parts costs includes vehicle maintenance and repairs, motor vehicle insurance and depreciation. The sub-index for vehicle equipment and parts is based on the ABS Transport Equipment and Parts index.

Metro submits that the ABS Transport Equipment and Parts index has not been reflecting Metro's actual vehicle equipment and parts costs.¹⁸⁸ Data supplied by Metro show that the sub-index for vehicle equipment and parts increased 1.63 per cent between the June 2000 quarter and September 2002 quarter.¹⁸⁹ For the same period, Metro's combined cost index for vehicle, tyres and parts increased 9.5 per cent.¹⁹⁰ This has led to Metro facing cost increases

¹⁸⁷ The quantity weighting for fuel in the national CPI is 4.25 per cent and the current expenditure weighting for fuel is between 4.04 (September Quarter 2002) and 4.08 per cent (December quarters 2002).

¹⁸⁸ Metro Submission, p105.

¹⁸⁹ Metro Submission, p108.

¹⁹⁰ Derived from Metro cost experience. Metro Submission, p108.

that have not been compensated for by adjustments to the CSA payments and/or Metro fares.¹⁹¹

Metro believes that the discrepancy is due to the fact that the ABS index, on which the current sub-index is based, relates to materials used as inputs to the transport equipment and parts industry. Metro states that:¹⁹²

While it could be expected in the long-run that trends in the prices of inputs to and output from a given industry sector should move in a similar fashion, there were significant differences between the above two ABS indices from September 2001. ...the outcome has been that Metro's costs in this area have risen whilst the value of the ABS Vehicle & Parts index has fallen, resulting in lower adjustments to CSA Payments and the deferral by 12 months of an adjustment to Metro's fares, further reducing the real value of Metro's revenue streams.

Based on Metro's cost experience, Metro suggests that an ABS index that relates to materials produced by the transport equipment and parts industry may be more appropriate than the current ABS input index. Metro also identifies that the general CPI for Hobart appears to show a good fit to Metro's vehicle equipment and parts costs.

After considering Metro's submission and available options,¹⁹³ the Commission favours a general exogenous indicator such as the national CPI. The Commission proposes the use of a national index rather than a Tasmanian index to minimise any potential sample size errors.¹⁹⁴

7.4.3.1 Proposal

The Commission proposes that the sub-index for vehicle equipment and parts be based on the national CPI.

7.4.4 Other Costs

The existing sub-index for other costs is based on the Hobart CPI adjusted for the effects of the New Tax System. Metro notes that the only costs that have moved abnormally in this category of costs appear to be general insurance costs.¹⁹⁵ Metro's two major insurance costs are workers compensation and motor vehicle insurances, which have both been incorporated into other categories of Metro's input costs.¹⁹⁶

¹⁹¹ Metro Submission, p106.

¹⁹² Metro Submission, p106.

¹⁹³ In searching for a suitable alternative sub-index for vehicle equipment and parts, the Commission has consulted with, amongst others, ABS. (Meeting with ABS Director - Client and Statistical Services Branch at Hobart office on 6 March 2003.) The indication has been that a general index such as CPI is more appropriate.

¹⁹⁴ The Melbourne CPI is used in Victoria.

¹⁹⁵ Metro Submission, p107.

¹⁹⁶ Workers compensation premiums are incorporated into labour costs and motor vehicle insurance costs are incorporated into vehicle equipment and parts. Metro Submission, p107.

For the same reason given earlier, the Commission considers that the national CPI is more appropriate as a base for the sub-index to minimise any potential sample size errors.

The Commission agrees with Metro that there is no longer any need to take into account adjustments for the impacts of the New Tax System which mostly affected the CPI September quarter of 2000.

7.4.4.1 Proposal

The Commission proposes that the sub-index for other costs be based on the national CPI.

7.5 Proposed New Metro Index

The Commission proposes the following cost components, sub-indices and weightings for the Metro Index for the next three years:

Table 7.3: Proposed new Metro Index

Cost Components		Indexation	No Return on Capital Weighting %	With Return on Capital Weighting %
Fuel		The latest available index number represented by the average fuel cost ¹⁹⁷ net of the latest GST and Federal fuel rebate.	8.63	8.10
Labour		Wages – indexed to the national Wage Cost Index for the Transport and Storage Industry Sector; plus Superannuation and payroll tax - treated as pass-through items as percentages; plus Workers compensation - uses Metro's current workers compensation insurance premium expenses or rate as a base rate and indexed to the National CPI.	62.92	59.05
Bus Capital (depreciation), Parts and Maintenance		National CPI	14.03	16.82
Other (eg non-bus capital, other operating costs etc)		National CPI	14.42	16.03
Total			100.0	100.0

¹⁹⁷ The average of all prices (inclusive of GST) paid by Metro to fuel suppliers for diesel fuel delivered during the period of 3 months ending on the last day of the immediately preceding month under contracts between Metro and those suppliers.

Appendix A - Terms of Reference

Government Prices Oversight Act 1995

INVESTIGATION INTO THE EFFICIENT DELIVERY AND PRICING OF SERVICES PROVIDED BY METRO TASMANIA PTY LTD

TERMS OF REFERENCE

Terms of Reference are outlined below for the investigation to be conducted by the Government Prices Oversight Commission ("the Commission") into the pricing policies of Metro Tasmania Pty Ltd ("Metro") and their appropriateness by comparison to the pricing policies of other urban public transport service providers.

These Terms of Reference address each of the issues outlined in section 25 of the *Government Prices Oversight Act 1995* ("the Act").

The Functions and Other Activities of Metro

The principal function of Metro is to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice (section 5 *Metro Tasmania Act 1997*).

The primary activity of Metro is to provide urban public transport services within designated areas within the greater Hobart area, Launceston, Burnie and Ulverstone as specified in their Community Service Activity Agreement with the State (which runs to 30 June 2004). The Agreement also states the fares policies that are to be applied and requires that Metro operate in a pro-active manner to promote and develop services consistent with the provisions in the Agreement.

Services to be Investigated, Metro Pricing Policies and Incentives For Serving Passengers

The Commission is to investigate the pricing policies associated with the provision of the current scheduled route services by Metro in the designated metropolitan areas of the greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services.

Metro's fares policy is specified within the Community Service Activity Agreement between the Government and Metro. Metro obtains approximately 25 per cent of its total revenues from passenger fares, the remainder of its revenue being provided by the Government under this Agreement.

The Commission should review the appropriateness of Metro's pricing policies and draw conclusions from comparisons with the urban public transport pricing policies of other operators, both within Tasmania and elsewhere in Australia. Any proposals to modify Metro's pricing and fares policies should include an assessment of the financial and patronage implications.

The Efficiency and Effectiveness With Which Public Transport Services Are Delivered By Metro

In investigating the pricing policies of Metro, the Commission is to consider, where relevant:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements between Metro and the Government, including the incentive mechanisms, for purchasing services, having regard to the cost of delivery and service levels.

The Commission should consider the financial and patronage implications and appropriate arrangements for the purchase of services from Metro by the Government having regard to the incorporation of suitable indicators for measuring efficiency and effectiveness to measure the achievement of shareholder expectations including the cost of delivery and service levels.

The Commission should consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations at Attachment 1, and the role of the Community Service Activity Agreement in achieving this outcome. In doing so, the Government requests that, as part of this investigation, the Commission identify, and provide advice on, suitable indicators for measuring both the efficiency and effectiveness with which public transport services are delivered by Metro, and make comparisons using these measures with other relevant operators both within Tasmania and in other parts of Australia.

Any measures developed should be capable of adaptation for incorporation into future Community Service Activity Agreements to maintain a focus on the continuing efficiency and effectiveness of service provision. Performance against these measures could also form part of Metro's reporting obligations to shareholders and, subject to commercial confidentiality needs, could also be reported on in Metro's annual report.

Additional Matters: the Metro Index

As part of the 2000 review of Metro's pricing policies the Commission developed the Metro Index as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The index was also adopted by the Department as the basis for adjusting Metro's Community Service Activity payments.

The Commission is to review the adequacy of the Metro index in reflecting Metro's costs and make recommendations as to the need to make modifications to this index in order to effectively reflect changes in Metro's input costs for the next 3 to 5 years.

The Date of Completion

The Commission is to provide a copy of the Final Report required under section 35 of the Act in respect of the Metro investigation by 1 June 2003.

Requirement for the Commission to Make Recommendations

The Final Report provided by the Commission under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act), and an appropriate mechanism to adjust such maximum prices, to enable Metro to deliver the defined services during the period of three years after the completion of the Final Report.

Draft Report

At an appropriate time during the investigation, the Commission is to make available a draft Report.

Attachment 1

Shareholder Expectations

The Government, through its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
 - students travelling to and from school; and
 - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery

Appendix B - GPOC Legislative and Policy Framework

National Competition Policy

The Government Prices Oversight Commission has been set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements which were signed by the Council of Australian Governments (COAG) in April 1995.

The purpose of the NCP is to promote competition in the interests of efficiency and economic growth, while dealing with social objectives and concerns about market failure. If there is no effective competition for supply of a particular Government service, there should be independent oversight of prices. Commonwealth prices oversight is to apply in the absence of an appropriate State body.

The philosophy of the NCP Agreements was that a prices oversight body should have the following characteristics:

- (a) it should be independent from the Government Business Enterprise whose prices are being assessed;*
- (b) its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined community service obligations imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;*
- (c) it should apply to all significant Government Business Enterprises that are monopoly, or near monopoly, suppliers of goods or services (or both);*
- (d) it should permit submissions by interested persons; and*
- (e) its pricing recommendations and the reasons for them should be published.*

The Tasmanian Government Prices Oversight Commission has been set up to fulfil these principles.

The Government Prices Oversight Act

The *Government Prices Oversight Act 1995* is the legislative authority for the Commission. It provides for the investigation of pricing policies of Tasmanian GBEs and Agencies that provide monopoly services and goods, and for the recommendation of maximum prices.

Conduct of Investigations

The Commission must conduct an investigation in accordance with a requirement to investigate given by the Minister (the Minister for Finance), the relevant terms of reference and the Act.

Subject to these requirements, the Commission may conduct an investigation in any manner it considers appropriate. It may consult with any person, hold hearings and seminars, and conduct workshops.

It may obtain information through submissions and may require information to be provided to it under Section 29 of the Act.

Confidentiality of Information

In regard to information provided in response to a Section 29 request, the Commission may give directions prohibiting or restricting the publication of material provided to it.

As a matter of policy, the Commission will not publish material which is provided to it in confidence. Further, the Act prohibits the Commission from publication of any material which, if published, could damage the commercial interests of a monopoly provider.

Reports

The Terms of Reference may require the release of a Draft Report (as has been required in this Investigation). The Final Report must contain the Commission's recommendations in regard to the maximum prices to be charged by the monopoly provider for the period of three years after the completion of the report.

Price Setting

The role of the Commission is to recommend appropriate maximum prices based on economic principles. The final decision on the level of maximum prices rests with Government.

Upon receiving the Commission's recommendations, the portfolio Minister, after consulting with his or her cabinet colleagues and the monopoly provider, formulates an Order prescribing maximum prices. The Minister's Order may also take into account the social consequences of the prescribed maximum price levels and other factors. The Minister's Order is disallowable by either House of Parliament.

The Order also extinguishes previous powers for setting prices.

Government Business Enterprises Act

The *Government Business Enterprises Act 1995* is an important piece of State legislation consistent with the National Competition Policy framework. The Act provides for more accountable, responsive and commercially focused GBEs and has a significant impact on the operating environment of all GBEs which the Commission investigates. The Act commenced on 1 July 1995.

Appendix C1 – Preliminary Submissions

Submission No	Name	Key Points
02/09299	David Enright Department of Infrastructure, Energy and Resources.	<ul style="list-style-type: none"> Cost benchmarks to measure service delivery efficiency and fares benchmarks should remain an integral part of the investigation. Assistance required in identifying and developing performance indicators that measure the effectiveness of Metro services. Gap analysis identifying the degree to which Metro services are aligned with the level of transport need.
02/09220	Tom Nilsson	<ul style="list-style-type: none"> Poor service provided by Metro in the Kingston/Blackmans Bay (Hobart Coaches). Hobart Coaches and Metro fares should be fully integrated.

Appendix C2 - Schedule of Submissions Received in Response to Invitation for Submissions

Submission No	Name	Key Points
03/09497	Alan Warren	<ul style="list-style-type: none">Discrepancy between the pricing policies of Metro Tasmania and Hobart Coaches, in particular in relation to the fare rates for the legally blind.
03/09535	Ann Burnett	<ul style="list-style-type: none">Metro’s policies in relation to bicycles should be extended to better accommodate every day users of bicycles, ie Metro should consider installing bicycle racks on its vehicles.
03/09581	Sally Catherall	<ul style="list-style-type: none">Concerns relating to public transport system servicing the Kingston, Kingston Beach and Blackman’s Bay area.Disparity of fares between Hobart Coaches and Metro Tasmania, with the fares charged by Hobart Coaches being higher than those of Metro.Some examples of fare disparities are as follows: ‘A Hobart Coach to the city, then transfer to Metro to go to University and repeat the procedure to return home costs for 1 working week (Mon-Fri): Metro 10 Trip \$ 11.50 Hobart Coach 10 trip (Kingston) \$ 22.10 Total for Mon-Fri \$ 33.60 The same student living in Opossum Bay can purchase an <u>unlimited travel at any time</u> Metro fare for one month for \$ 46.00. Comparing <u>one working month</u> Kingborough = \$134.40 to Opossum Bay (<u>unlimited travel one month</u>) = \$46.00 is a difference of \$88.40.’Lack of facilities in Kingston, such as:<ul style="list-style-type: none">– Bus stop signs– Bus shelters– Timetables
03/09579	Peter Moore UITP	<ul style="list-style-type: none">Shareholder Expectations Statement does not have a focus to ‘expand patronage’.The introduction of the Goods and Services Tax and the continuing inequities associated within the current Fringe Benefits Tax regime are not

Submission No	Name	Key Points
		<p>conducive to creating an environment where public transport operates on an equal-playing field with the private motorcar.</p> <ul style="list-style-type: none"> ▪ A major factor that would contribute to the reversal of the continuing trend of patronage decline is related to the integration of all forms of transport, including the private motorcar. ▪ Suggestions to encourage increased usage of public transport are as follows: <ul style="list-style-type: none"> – an employer based incentive scheme to encourage employees to utilise public transport; – increase FBT liability on company cars with increased kilometres travelled rather than the current system where tax liability decreases as the kilometres increase; – designate a road user charge from existing fuel excise to be hypothecated to transport funding. ▪ Transport decisions of the general public can be affected by broadening perceived transport options and by identifying potential lifestyle and financial benefits offered by alternatives. ▪ Experience from Europe and the United States suggests that the community is ready to accept higher charges for parking, registration 'IF' those charges are hypothecated directly to improving public transport, if not for them, then at least to get the 'other guy' off the road.
03/9573	J. C. Usher TassieLink Regional Coach Service, Tasmania	<ul style="list-style-type: none"> ▪ There is scope to broaden the incentive system applicable to Metro, by way of, for example: <ul style="list-style-type: none"> – Top-ups related to concession passengers carried. – An incentive payment related to growth in patronage in other areas. ▪ A normal commercial management regime including an expectation of a return (albeit small) on capital employed would strengthen the management environment in which Metro operates. ▪ There is a need to develop consistent fare scale between all bus operations in similar areas as this will assist with increased integration. ▪ The student fare regime should be consistent across all bus service operators.

Submission No	Name	Key Points
		<ul style="list-style-type: none"> There is not sufficient differentiation between styles of operation between Metro and others to justify maintaining two separate indexes. A valid and responsive cost index/indices should be developed for the indexation of CSA/CSO payments, and fare revenue sources for all operators.
03/09587	Robin Holmes <i>“Tasmania’s own”</i> REDLINE	<ul style="list-style-type: none"> Metro’s revenue structure be “commercialised” in line with private operators to provide more accountable and more incentive based revenue sourcing. While the basis of the CSA funding remains without commercial foundation, it is hard to recommend a commercial return on investment. The “commercialisation” of Metro’s revenue structure will provide the avenue for cost accountability for each service (or at least area). Built into this cost accountability should be a capital component and a profit component. On a consolidated basis, Metro would provide a return on investment as well as adequate retained funds (through capital depreciation regardless of life of vehicle) to facilitate a vehicle replacement program. It is important that Metro integrates with other forms of public transport. However, without an accurate “service” costing methodology, the danger exists for Metro to either under-price its services (or possibly over-price). Current inequities in the student fares structures and the need to address these pricing anomalies.
03/09588	Hon Sue Smith MLC Member for Montgomery Legislative Council of Tasmania	<ul style="list-style-type: none"> Services offered in the Central Coast area, in particular the lack of service offered by Metro on the Burnie Show Day in the Central Coast region (where the Burnie Show is not a gazetted holiday). It is fair to expect that on all working days the usual service is not only expected but is delivered.
03/09605	Richard Pickup	<ul style="list-style-type: none"> The Government should provide free transport to all students attending the nearest or designated Government school of appropriate level and that

Submission No	Name	Key Points
	The Tasmanian Council of State School Parents and Friends Associations Inc	the safety of students in transit is of the utmost importance.
03/09600	Barry Duckett Managing Director Mersey Link Bus Service	<ul style="list-style-type: none"> Although Metro provides an efficient and effective service in its service area, the current agreement between Metro and the Government provides Metro with little incentive to expand its operations or integrate with other operators. A top-up regime of funding would be more effective for Metro than the current structure. Because Metro is funded on a break-even basis as opposed to being allowed to earn a commercial return, Metro cannot realise the benefits in advancing technology. The student fare regime needs to be overhauled and the private sector needs to be realigned with Metro's fares. The Metro index should use the same indices as those used by the private sector in order to create a level playing field.
03/09630	Simon Barnsley Department of Education (DoE)	<ul style="list-style-type: none"> Schooling hours and the occasional tension created by conflicting educational needs and Metro operations. Wishes to be involved with the consultation process in relation to the extension of Metro's services into the Kingston/Blackmans Bay area.
03/09729	Julian Joscelyne Department of Health and Human Services	<ul style="list-style-type: none"> Any proposal for an increase in Metro's fares should always take account of the users capacity to pay. Although there is a declining trend in patronage for those in the paid workforce, there is still a heavy reliance on Metro's services from concession cardholders. If concession fares are amended to reflect 50% of the rates of full fare paying adults, this may in fact increase the concession fares for those living in the outer Hobart suburbs. Retention of the day-tripper ticket for concession cardholders.

Submission No	Name	Key Points
		<ul style="list-style-type: none"> ▪ The proposed introduction of the ‘Smart Card’ ticketing system is supported. The retention of on-board cash sales is also supported and Metro are encouraged to explore the possibility of expanding the availability of ticket outlets to include convenience stores, Australia Post and Service Tasmania outlets.
03/09701	Bob Cotgrove	<ul style="list-style-type: none"> ▪ The statement made by Metro in their submission that ‘public transport is seen as the inferior good’ is a myth. The choice between private transport and public transport is instead due to the changing nature of employment, land use and daily activity patterns. ▪ The Government’s intention to provide assistance to low income people through the CSA funding agreement has essentially failed, given the differing travel needs of this group.

Appendix D – Metro Financial Statements

Balance Sheet¹⁹⁸ – 30 June 2001 to 30 June 2005

	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05
	\$000's	\$000's	\$000's	\$000's	\$000's
	Actual	Actual ¹⁹⁹	Budget	Budget	Budget
Current Assets					
Cash	1 328	3 703	204	113	120
Receivables	1 045	823	1 045	1 045	1 045
Inventories	694	741	694	694	694
Other Financial Assets	3 092	2 695	3 727	3 427	3 607
Other	421	487	421	421	421
Total Current Assets	6 580	8 449	6 090	5 700	5 887
Non-Current Assets					
Other financial assets	1 990	2 630	1 990	1 990	1 990
Property, plant and equipment	25 466	24 890	26 189	26 495	26 389
Other	1 400	1 593	1 400	1 400	1 400
Total Non-Current Assets	28 856	28 951	29 579	29 885	29 779
Total Assets	35 436	37 562	35 669	35 585	35 666
Current Liabilities					
Accounts Payable	1 956	2 928	1 956	1 956	1 956
Interest-bearing liabilities	71	4	169	34	35
Provisions	3 960	4 448	4 201	4 327	4 457
Total Current Liabilities	5 987	7 380	6 326	6 317	6 448
Non-Current Liabilities					
Interest-bearing liabilities	3 034	3 030	2 861	2 827	2 792
Provisions	9 419	10 033	9 419	9 419	9 419
Total Non-Current Liabilities	12 453	13 063	12 280	12 246	12 211
Total Liabilities	18 440	20 433	18 606	18 563	18 659
Net Assets	19 669	17 119	17 063	17 021	17 006
Equity					
Shareholders' equity	15 501	15 502	15 501	15 501	15 501
Asset Revaluation Reserve	1 097	1 120	1 037	1 006	976
Retained profits	398	497	525	514	529
Total Equity	16 996	17 119	17 063	17 021	17 006

Source: Metro Corporate Plan 2002/03 to 2004/5

¹⁹⁸ Based on Metro Corporate Plan forecasts.

¹⁹⁹ 2002 Actual taken from Metro Annual Report 2001/02.

Appendix E - Metro Sales and Boardings 2001/02 - All Cities

Ticket Type	Fare	Estimated Tickets Sold	Fare Rev \$	Total Boardings
<i>Adult (Full)</i>				
1-2 sec	1.30	423 573	550 645	432 047
3-4 sec	1.70	345 754	587 782	363 221
5-7 sec	2.00	177 248	354 496	200 357
8-10 sec	2.20	30 869	67 912	39 166
11-15 sec	3.00	6 979	20 937	7 819
1-2 M10	10.40	14 425	150 020	145 909
3-4 M10	13.60	21 771	296 086	224 673
5-7 M10	16.00	15 939	255 024	170 045
8-10 M10	17.60	3 355	59 048	36 265
11-15 M10	23.10	828	19 127	9 054
Day Rover	3.40	38 897	132 250	111 293
Rov 10 Day	26.50	257	6 811	7 514
Sub-Total		1 079 893	2 500 136	1 747 362
<i>Adult Concession</i>				
Ad Con	1.30	629 447	818 281	790 597
Ad Con M10	10.40	43 398	451 339	541 307
Day Trip	2.10	773 156	1 623 628	2 259 064
Trip M10	16.80	7 137	119 902	219 485
Sen Day	2.20	25 909	57 000	79 533
Sen M10	19.30	3	58	72
Family	9.60	49	470	383
Sub Total		1 479 099	3 070 678	3 890 440
<i>Child/Student</i>				
Ch/Sch	1.20	772 227	926 672	931 126
Ch/Sch M10	9.60	85 323	819 101	1 018 821
Ch/Sch Mth	38.40	3 119	119 770	179 961
Free		1 303 180	-	1 303 180
Sub Total		2 163 849	1 865 543	3 433 086
<i>Tertiary</i>				
Tert M10	10.80	14 322	154 678	192 050
Tert Mth	43.20	1 586	68 515	95 557
Sub Total		15 908	223 193	287 607
TOTAL		4 738 749	7 659 549	9 358 495

Sourced from Metro Submission, p48.

Appendix F – Metro's Customer Charter

Customer Service Charter

This charter tells Metro's customers what type and level of service they can expect from Metro.

This charter outlines:

Who Metro sees as its customers;
What Metro aims to do for its customers;
What customers have told Metro they want;
What Metro undertakes to provide its customers;
What you can do if Metro does not meet its charter obligations;
What Metro will do if it does not meet its charter obligations;
What Metro expects from you; and
Other things Metro undertakes to deliver

Who Metro sees as its Customers

Metro's primary customers are all those who use its bus services. These are mainly school students, concession card-holders and adult work-commuter passengers.

Metro has other customers including casual bus users, tourists and charter passengers and those with whom it has a business relationship. As well, Metro sees its front-line staff as its internal customers.

What Metro Aims to do for it's Customers

Metro's aim is to provide, for the people of Tasmania, in particular the regions surrounding Hobart, Launceston and Burnie, safe, reliable, easily accessible bus services, which run to time and are provided by helpful, friendly staff.

What Metro's Customers have told us they expect from Metro

Buses which will:

- Run as timetabled;
- Run on the scheduled routes;
- Run on time; and
- Stop at all stops where there are passengers waiting.
- Information, explanation and assistance when services do not run as timetabled.
- Clean buses.
- Buses displaying clear and accurate destinations and route numbers.
- Helpful and friendly staff.

- Readily available and easily accessible information about services, fares and timetables.
- Personal safety and security while travelling on or waiting for Metro buses.
- Adequate shelters and seats at bus stops.
- Ticketing systems, which are easy to use.
- To know that Metro listens to your comments, suggestions and complaints.

What Metro undertakes to provide it's Customers

- 98% of buses will depart and arrive no more than three (3) minutes after the time specified on timetables.
- No bus will depart ahead of the scheduled time.
- All buses will travel on the scheduled route and stop, when timetabled to do so, at all stops where there are passengers waiting and hailing.
- Metro will always provide all the information it has and explain why services have not run as timetabled.
- Metro will provide whatever assistance it can to customers affected.
- All buses will be cleaned daily.
- All buses will have clear and accurate destinations and route numbers.
- All Metro staff will be helpful, friendly and pleasant to customers.
- Information about services, fares and timetables will be readily available to customers from Metro offices, Metro Shop, at all major bus malls.
- Over the next 4 years, timetables and fare information for that route will progressively be provided at each bus stop.
- All drivers will have information about services, fares and timetables, or means of obtaining that information, for all customers who require it.
- Over the next 4 years, Metro will examine how it can locate its bus stops at or near well-lit areas.
- Over the next 5 years, all bus termini will be lit at night-time and all bus stops where a bus shelter exists will be in a well-lit area.
- Subject to local council agreements, or over the next 2 years, all bus malls will be monitored by video surveillance.
- A security officer will accompany all services, which run after 7pm, at least once every 2 months.
- Over the next 4 years, all buses operating services, which run after 7pm, will be provided with video surveillance.
- Over the next 2 years, all bus termini will be equipped with shelters or seats.
- Over the next 4 years, all bus stops, where, more than 40 people regularly wait for buses over the course of the travelling day, will be equipped with adequate shelter or seating.
- Full information about the ticketing system and how to use it will be provided at all places where tickets can be purchased.
- Metro staff will provide helpful assistance for customers who are unsure of how the ticketing system works or who have difficulty in using it.
- Metro will listen to, consider and respond within 10 working days, to all comments and suggestions and complaints from its customers.

What you can do if Metro does not meet its Charter Obligations

If Metro does not fulfil its charter obligations or if it does not provide the service you think it should, you should complain by:

Discussing the matter with the driver or other Metro staff at the time of the unsatisfactory service.

If this does not resolve the matter to your satisfaction or if you prefer not to do this, you should complain:

By ringing:

- In Hobart: (03) 62 334234
- In Launceston: (03) 63 365888
- In Burnie: (03) 64 313822

By writing to:

- PO Box 61 MOONAH 7009
- PO Box 578 LAUNCESTON 7250
- PO Box 182 BURNIE 7320

In person at:

- Metro Shop, GPO Building, Elizabeth Street, Hobart
- Metro Administration Office, 212 Main Road, Moonah
- Metro Depot, 168 Wellington Street, Launceston; or
- Metro Depot, 28 Strahan Street, Burnie.

Metro will always respond within 10 working days. Metro will advertise its contact telephone numbers clearly on buses and at major bus stops.

(In order to help Metro deal adequately with any complaint and ensure that problems do not re-occur, please provide as much detail about the incident as possible, preferably including times, route and bus numbers. However, even if you do not have this information, Metro will respond.)

What Metro will do if it does not meet its Charter Obligations

If Metro fails to meet its charter obligations, it will:

- Always apologise, both privately and publicly, to customers affected;
- Always provide full information and explanation about what happened and why it happened;
- Always explain what it will do to try to ensure that such an event will not occur again;
- Do whatever it can to assist customers adversely affected by its failure; and

- Tell you regularly, through the press or on buses, about its failures to do what it has said it will and what it has done or will do to try to ensure such failures do not re-occur.

What Metro expects from you

In order to fulfil its obligations as promised in this charter, Metro needs your cooperation. Metro needs you to:

- Treat your fellow passengers and Metro staff in a polite manner;
 - Not mistreat Metro equipment;
 - Pay the correct fare for your travel; and
 - Follow safety directions, whether on signs on buses or at bus stops or given to you by drivers or other Metro staff.
 - Metro also asks you to tell us about the things you like about our services.
- You can do this by ringing:

- In Hobart: the Customer Liaison Officer on telephone number (03) 62 334234
- In Launceston: the Officer in Charge on telephone number (03) 63 365882
- In Burnie: the Officer in Charge on telephone number (03) 64 313822

Metro also undertakes to deliver the following:

Metro will:

- Try to ensure that drivers consider your safety and comfort by:
 - driving carefully;
 - not departing until passengers are seated or stationary;
 - stopping as close as they can to the kerb and using bus-lowering devices;
- Work with Tasmania Police and Local Government to make services more reliable by dealing with the problem of vehicles blocking bus stops and areas of persistent high traffic congestion;
- Constantly review timetables to ensure we meet your needs as closely as possible;
- Work with ticket agents to try to provide you with the service information you need in the most convenient way;
- Tell you regularly, through the press or on buses, about how well Metro is meeting its charter obligations,
- but will also report on how many buses were late or cancelled or did not meet our service targets in some other way; and
- Ensure that Metro staff travel by bus, where possible, to ensure an overall perspective is gained on how
- Metro is performing operationally and the success or otherwise of its customer service initiatives.

OUR AIM IS NEVER TO GIVE CAUSE FOR YOU TO COMPLAIN, BUT,

**IF YOU DO, WE WILL TREAT YOUR COMPLAINT SERIOUSLY AND
DEAL WITH IT OBJECTIVELY, EFFICIENTLY AND COURTEOUSLY**

Appendix G – Metro’s Recent Fare Movements and Proposed Changes

Ticket Type		As at 06-2000 \$	Change %	As at 07-2000 \$	Change %	As at 09-2002 \$	Change %	Proposed Maximum ²⁰⁰
Adult	1-2 Section	1.20	8.3	1.30	7.7	1.40	30.0	1.80
	3-4 Section	1.60	6.2	1.70	5.9	1.80	30.0	2.30
	5-7 Section	1.90	5.3	2.00	5.0	2.10	30.0	2.70
	8-10 Section	2.10	4.8	2.20	4.5	2.30	30.0	3.00
	11-15 Section	2.80	7.1	3.00	6.7	3.20	30.0	4.20
	1-2 Metro 10	9.60	8.3	10.40	7.7	11.20	30.0	14.60
	3-4 Metro 10	12.80	6.2	13.60	11.8	15.20	30.0	19.80
	5-7 Metro 10	15.60	2.6	16.00	5.0	16.80	30.0	21.80
	8-10 Metro 10	16.80	4.8	17.60	4.5	18.40	30.0	23.90
	11-15 Metro 10	21.60	6.9	23.10	10.8	25.60	30.0	33.30
	Day Rover (off-peak)	3.10	9.7	3.40	5.9	3.60	30.0	4.70
	Rover 10 Day (off-peak)	24.00	10.4	26.50	8.7	28.80	30.0	37.40
Adult Concession	Adult Concession	1.20	8.3	1.30	7.7	1.40	0	1.40
	Adult Concession Metro 10	9.60	8.3	10.40	7.7	11.20	0	11.20
	Day Tripper	1.90	10.5	2.10	4.8	2.20	13.60	2.50
	Day Tripper Metro 10	15.20	10.5	16.80	4.8	17.60	13.60	20.00
	Senior All Day	2.10	4.8	2.20	4.5	2.30	13.0	2.60
	Senior All Day Metro 10	18.00	7.2	19.30	0	19.30	13.0	21.90
	Family	9.00	1.2	9.60	6.3	10.20	30.00	13.20
Child/Student	Child/Student	1.20	0	1.20	0	1.20	0	1.20
	Child/Student Metro 10	9.60	0	9.60	0	9.60	0	9.60
	Child/Student Monthly	38.40	0	38.40	0	38.40	0	38.40
Tertiary	Tertiary Section Fares	As Per Adult		As Per Adult		As Per Adult		As Per Adult
	Tertiary Metro 10	10.00	8	10.80	6.5	11.50	30.0	14.90
	Tertiary Monthly	40.00	8	43.20	6.5	46.00	30.0	59.80

Sources: Metro & Commission’s proposals.

²⁰⁰ Note: Proposed fares are inclusive of GST.